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Study course...Pt. 1

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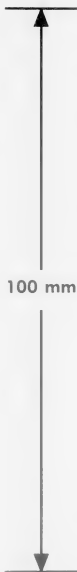
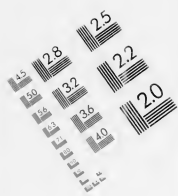
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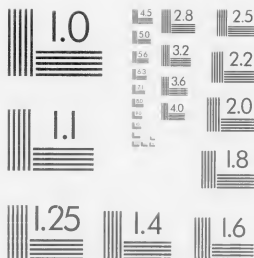
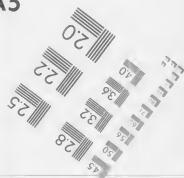
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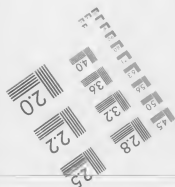


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Part 1

**American
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Study Course**

Part I

Banking and Finance

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American Institute of Banking

Wealth and Banking

THE enactment of the Federal Reserve Act, made law by the signature of Woodrow Wilson, December 23, 1913, marks a new era in American banking. In order to properly understand the significance of the new legislation, to appreciate its purpose and to comprehend the functions of the Federal Reserve Banks, it is necessary that the student should be familiar with the important facts of financial history. He should have a working knowledge of economics, the fundamental conditions which underlie all business activity, since it is the province of banks and the aim of banking legislation to solve the problems of production, distribution, consumption, exchange, and trade and commerce in general.

The history of banking in the United States divides itself naturally into several periods or epochs. First, the colonial period, when there was little or no independent banking, and the exchange of commodities was effected on an extremely crude basis; second, the period beginning with and subsequent to the Revolution, when, as is the case with all nations, banking was given definite shape by the exigencies of a nation at war; the period of the existence of the first and second Banks of the United States; third, the period between 1840 and the Civil War; and fourth, the period since the passage of the National Bank Act. In another part of this lesson pamphlet will be found a brief history of early American banking. The student should not pass over this part of the pamphlet lightly. Especial attention should be paid to the history of note issues. Banks are institutions with a threefold relation to money: they are a storehouse for money, lenders of money, and issuers of money. The common tendency of the everyday banker is to regard banks merely as institutions for deposit and discount. While these two functions, so far as individual banks are concerned, are of considerable importance, in a study of banking legislation it may be said that the function of note issue usually determines the success or failure of banking measures. The student is reminded that bank notes are not peculiar to the United States. It must be borne in mind that the system of note issue provided by the National Bank Act was primarily a war measure. It was patterned after the New York State banking laws, largely because such a system made possible the creation of an artificial market for government bonds, and incidentally the flaws in that system of note issue led up to the Federal Reserve Act. At the time the National Bank Act was passed several States employed State banking systems in which note issue was along more scientifically correct lines, notably the Suffolk System of New England.

Close attention should also be paid to that part of the pamphlet devoted to the study of the more important foreign banks. Our own methods in vogue for the past half century have obscured somewhat the fact that banks exist not only for the purposes of lending money where it is needed but also the fact that they should be enabled to borrow money from those who have it to lend. In short, experience has taught that a banking system is complete only when there is a bank of banks.

The beginner in the study of banking as a science should for the moment put into the background all thought of banking as a business. He must understand first the fundamental principles of banking, consisting of such elements as a sound currency system, an elastic bank note issue conforming to the needs of trade, mobile reserves, adequate capital fortified with a proper proportion of surplus, the whole being subject to an intelligent supervision and control that will insure careful credit extension and the solvency of the individual banking units; he should know how these problems are met by the other great nations of the world and what the financial and banking history of our own nation has been. In the light of the knowledge of these facts an intelligent understanding may then be had not only of the Federal Reserve Act, but of the ordinary business of banking with which this course of study has to do.

During the transition period it will be impossible to provide a text-literature that may be regarded as the last word in banking practice. Some of the features of the Federal Reserve Act do not become fully effective until after three years. The student should be careful to distinguish between changes in principle and changes in practice. The former are matters of legislation and are effective upon a definite date; the latter are matters of accounting and develop gradually according to rules and regulations.

The Federal Reserve Act

An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS.—Sec. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal

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Reserve Board when organized: Provided, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national bank Act, or under the provisions of this Act, shall be thereby forfeited. Any non-compliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such non-compliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal

reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than \$25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than \$4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES.—Sec. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

FEDERAL RESERVE BANKS.—Sec. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by this

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Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each

member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and class B shall be chosen in the following manner:

The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for several candidates in second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then

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having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain under regulations to be established by the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.—Sec. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number

of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.—Sec. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

Sec. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

Provided, however, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing

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the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.—Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking Act.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such

surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD.—Sec. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said Board.

The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have power to levy semi-annually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

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The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by the United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

Sec. 11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act: Provided, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: And provided further, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any

Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: Provided, That nothing herein shall prevent the President from placing said employees in the classified service.

FEDERAL ADVISORY COUNCIL.—Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS.—Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Upon the indorsement of any of its member banks, with a

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waiver of demand, notice and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: Provided, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

OPEN-MARKET OPERATIONS.—Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold,

gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.—Sec. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: Provided, however, That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES.—Sec. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills, accepted for rediscount under the provisions of section thirteen of this Act, and the Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

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Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasury, otherwise than for redemption, may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board, and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing, with the Federal reserve agent, its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at

the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws, relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, and so forth, and regulations relating to such examination of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: Provided, however, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

Sec. 17. So much of the provisions of section fifty-one hun-

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dred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking associations shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds is hereby repealed.

REFUNDING BONDS.—Sec. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: Provided, That Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

Provided further, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: Provided, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes

so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES.—Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

WEALTH AND BANKING

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighths thereof.

In the Federal reserve bank seven-eighths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situated. Except as thus provided, no member bank shall keep on deposit with any non-member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a non-member bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act.

Sec. 20. So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

BANK EXAMINATIONS.—Sec. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: Provided, however, That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust com-

panies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

Sec. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank. No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

WEALTH AND BANKING

Except as provided in existing laws, this provision shall not take effect until sixty days after the passage of this Act.

Sec. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

LOANS ON FARM LANDS.—Sec. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan, shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES.—Sec. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on, and the amount of capital set aside for the conduct of its foreign business. The Federal Reserve Board shall have power to approve or to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate, or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish foreign branches shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

Sec. 26. All provisions of law inconsistent with or superseeded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: Provided, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum,

or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

Sec. 27. The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby re-enacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: Provided, however, That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.

Sec. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and re-enacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

Sec. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Sec. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, December 23, 1913.

Elementary Economics

As a fundamental basis of education in finance the student should first acquire some knowledge of the general facts of commerce and industry. On the basis of facts thus acquired and of whatever business experience the student may have had, he should then study the more comprehensive subjects of the nature and value of money, the demand and supply of money, the character and uses of credit, the relationship of credit to banking, conditions which influence prices and rates of interest, and the various problems which pertain to metallic money and paper currency. Finance deals with business methods and problems. It calls for a knowledge of practical business, but much more fundamentally it calls for capacity to generalize, with a view of constructing the general principles under which orderly human society organizes itself to satisfy its physical needs. The chief difficulty in the study of

DIGEST OF FEDERAL RESERVE ACT

Federal Reserve Board

Seven Members

Secretary of Treasury—ex officio chairman.

Comptroller of Currency, ex officio.

Five to be appointed by President with consent of Senate to serve ten years, not more than one from any District—two to be experienced in banking or finance—one to be Governor and one to be Vice Governor. All to give entire time to business of Board, salary \$12,000 each.

No member shall be an officer, director, or stockholder of any bank or trust company, nor a member of Congress.

Members and Assistant Secretaries of Treasury shall not be employed in any Member Bank while in office nor for two years thereafter.

Powers

To examine Federal Reserve Banks and Member Banks.

To permit or require Federal Reserve Banks to rediscount paper of other Federal Reserve Banks at rates to be fixed by this Board.

To suspend for stated periods reserve requirements and to establish a tax on decreasing reserves.

To regulate the issue of Notes.

To add to or reclassify existing Reserve and Central Reserve Cities.

To suspend or remove officials of Federal Reserve Banks.

To require writing off doubtful assets of Federal Reserve Banks.

To suspend, liquidate or reorganize Federal Reserve Banks violating this Act.

To require bonds of Federal Reserve Agents to perform all duties, etc., specified or implied in this Act, and to make all

Federal Reserve Banks

Not less than 8 nor more than 12; one to be located in each of a like number of cities to be known as Federal Reserve Cities; one of such cities to be located in each of a like number of districts to be known as Federal Reserve Districts covering the entire continental U. S., excluding Alaska.

Each controlled by nine directors, as follows:

3—Elected by Member Banks representing banks.

3—Elected by Member Banks representing business interests of District—directors, officers or employees of any bank not eligible.

3—Appointed by Federal Reserve Board, one a person of banking experience, to be chairman and designated as "Federal Reserve Agent." Directors, officers, employees or stockholders of any bank not eligible.

No member of Congress shall be an officer or director.

Capital not less than \$4,000,000. Shares \$100 par value, tax exempt, to be subscribed by Member Banks in District, and under certain conditions by U. S. Treasury, and by general public, holdings by latter not to exceed \$25,000 each. Only stock owned by Member Banks can be voted; such stock not to be transferred nor hypothecated.

Earnings:—6% cumulative dividends; remainder— $\frac{1}{2}$ to surplus up to 40% for paid-in capital, after this all earnings to U. S. as a franchise tax, to be applied either to gold reserve, or to retirement of outstanding U. S. bonds.

Must maintain reserves in gold or lawful money of at least 35% of its deposits, in addition to reserves against notes.

Duties and Powers

Shall receive for deposit at par checks and drafts drawn on any of its depositors; and checks and drafts from other Federal Reserve Banks drawn on any bank in the system.

Shall accept deposits from U. S. Member Banks of District, and other Federal Reserve Banks.

*May discount commercial notes, drafts and bills of exchange endorsed by Member Banks protest waived, not including those drawn or issued to carry stocks or securities, except U. S. bonds; such paper not to run for more than 90 days, except agricultural and cattle paper in amount fixed by Federal Reserve Board, having a maturity not to exceed six months.

May discount acceptances up to $\frac{1}{2}$ of their capital and surplus, bearing endorsement of one Member Bank based on exportation or importation of goods, and maturing in not more than three months.

May issue circulating notes under conditions provided in National Bank Act, except that issue is not limited to amount of capital.

Under regulations of Federal Reserve Board

Member Banks

Every NATIONAL BANK must within 30 days after notification from Organization Committee, and eligible STATE INSTITUTIONS may, at any time, join the Federal Reserve Bank in their District, by subscribing to stock a sum equal to 6% of their paid-up capital and surplus, one-sixth to be payable on call, one-sixth within three months, and one-sixth within six months thereafter, the remainder on call.

Any NATIONAL BANK failing to accept terms of this Act within sixty days after its passage shall cease to act as reserve agent, and failing to comply with the Act within one year after its passage shall forfeit its franchise under the National Bank Act.

NATIONAL BANKS having capital and surplus of \$1,000,000 or more may, with permission of Federal Reserve Board, establish foreign branches.

May accept drafts or bills of exchange having not more than six months to run, drawn upon them for exportation or importation of goods, up to one-half of capital and surplus.

NATIONAL BANKS, if not in a Central Reserve City, may make loans maturing in not to exceed five years on farm lands within District at not to exceed 50% of value of property, up to an aggregate of 25% of capital and surplus, or to 1-3 of time deposits.

NATIONAL BANKS permitted to receive time deposits and to pay interest thereon.

No bank subject to visitatorial powers except such as authorized by law.

No officer, director, employee or attorney shall receive directly or indirectly, under penalty of fine and imprisonment, any fee, commission, gift or other consideration in connection with the business of the bank, except the usual salary or director's fee.

Comptroller of Currency, with approval of Secretary of Treasury, shall appoint examiners who shall examine each Member Bank at least twice in each calendar year. Examination of STATE INSTITUTIONS by State authorities may be accepted.

Requirement that NATIONAL BANKS shall deposit U. S. bonds with Treasurer repealed.

STATE BANKS may become National Banks.

STATE BANKS upon becoming Member Banks must conform to National Bank Act as follows: Limitation of liability to such banks; prohibition against purchase of or loans on stock of such banks; impairment of capital; payment of unearned dividends; and to rules of Federal Reserve Board, and shall also be liable to certain penalties under said Act.

May charge customer actual expense of collections and of exchange, rate of charge for collections to be fixed by Federal Reserve Board.

Reserves

In estimating reserves net balance of amounts due to and from other banks shall be basis for ascertaining deposits against which reserves shall be determined.

Demand deposits are those payable within 30 days; time deposits those payable after 30 days and those subject to not less than 30 days' notice.

Reserves must be held as follows:

Country Banks 12% of demand and 5% of time deposits, of which	4/12—In own vaults (for first 2 years 5/12).
	5/12—In Federal Reserve Bank of home district (2/12 for first year, and 1/12 for each succeeding 6 months up to 5/12).
	3/12—In own vault or in Federal Reserve Bank

May exercise functions of Clearing House and may require Federal Reserve Banks to do the same for Member Banks.

To levy upon Federal Reserve Banks semi-annual assessments sufficient to meet estimated expenses of the Board.

To exercise general supervision over Federal Reserve Banks.

To define character of bills eligible for discount by Federal Reserve Banks, and to limit and regulate rediscounts and acceptances.

May establish rate of interest to be charged Federal Reserve Banks on Federal Reserve Notes issued.

May fix the charges to be collected by Member Banks for checks cleared through Federal Reserve Banks.

To employ necessary attorneys, clerks, etc., without regard to classified service; but President may place said employees in classified service.

Organization Committee

To consist of Secretary of Treasury, Secretary of Agriculture and Comptroller of Currency.

To designate as soon as practicable Federal Reserve Cities, and establish Federal Reserve Districts, its determination subject to review only by Federal Reserve Board.

To supervise organization of a Federal Reserve Bank in each Federal Reserve City.

Federal Advisory Council

Composed of as many members as there are Federal Reserve Banks—one chosen by each bank. May act in advisory capacity only to Federal Reserve Board.

acceptances and bills of exchange of kind named above.*

May deal in gold coin and bullion.

May buy and sell U. S. bonds and notes; also State, County, District, or Municipal notes, revenue bonds or warrants having not more than six months to run.

May buy from Member Banks and sell bills of exchange arising out of commercial transactions.

Shall establish branches in District under regulations approved by Federal Reserve Board.

May establish from time to time rates of discount.

May, with consent of Federal Reserve Board, open bank accounts and establish agencies in foreign countries to deal in two-name bills of exchange, having not more than 90 days to run.

May open accounts with other Federal Reserve Banks for exchange purposes.

No government funds, public funds of the Philippine Islands, nor postal savings funds shall be deposited in any bank in the continental U. S. not belonging to this system.

Note Issue

Federal Reserve Notes, obligations of U. S., to be issued to Federal Reserve Banks at discretion of Federal Board; denominations \$5, \$10, \$20, \$50, \$100; redeemable in gold or lawful money at any Federal Reserve Bank, and in gold at U. S. Treasury; secured by equal amount of paper accepted for rediscount, and, by first lien equally with circulating notes secured by U. S. bonds, on all assets of issuing bank; receivable for all taxes, customs, and other public dues.

Federal Reserve Banks allowed to substitute collateral.

Notes must be forwarded to issuing bank for credit or redemption when received at other Federal Reserve Banks.

Federal Reserve Banks shall carry 40% gold reserve against outstanding notes, of which not less than 5% shall be with U. S. Treasury.

When gold reserve, by permission of Federal Reserve Board, falls below 40%, Board shall establish tax of not more than 1% on deficiency down to 32½%; below that not less than 1½% increasingly upon each 2½% decrease; tax to be paid by Reserve Bank but added to rates of discount fixed by Board.

No Federal Reserve Bank shall pay out notes of another bank under penalty of 10% face of notes.

Federal Reserve Board has right to reject application for notes of any Federal Reserve Bank.

Notes presented for redemption at U. S. Treasury shall be paid and returned to Federal Reserve Bank. If presented otherwise than for redemption may be exchanged for gold and returned to issuing bank, or they may be returned for credit of U. S.

Reserve City Banks
15% of demand
and
5% of time
deposits,
of which

Central Reserve
City Banks
18% of demand
and
5% of time
deposits,
of which

Bank, or with Reserve agent as at present).
5/15—In own vault (for first 2 years 6/15).
6/15—In Federal Reserve Bank (3/15 for first year and 1/15 for each succeeding 6 months up to 6/15).
4/15—In own vault or in Federal Reserve Bank (for 3 years this may be held in own vault, in Federal Reserve Bank or with reserve agent as at present).

6/18—In own vault
7/18—In Federal Reserve Bank.
5/18—In own vault or Federal Reserve Bank.

Federal Reserve Banks may receive, as one-half of each installment of reserve, paper acceptable for rediscount.

Reserve funds in Federal Reserve Banks may be checked against to meet existing liabilities, but reserve must be restored before new loans or dividends can be made or declared.

Section in former law providing that 5% redemption fund be considered part of reserve is repealed.

No Member Bank shall keep on deposit with a non-member bank more than 10% of its own capital and surplus, except where State laws specify that reserves of STATE BANKS shall be kept with STATE INSTITUTIONS. Deposits so kept, for a period of three years after organization of Federal Reserve Bank of District, shall be considered as deposits in Reserve Bank.

Except by permission of Federal Reserve Board, no Member Bank shall act as agent for non-member banks in obtaining discounts.

NATIONAL BANKS in Alaska or insular possessions may remain non-member banks under National Bank Act, or, except those in Philippines, may with consent of Federal Reserve Board become members.

NATIONAL BANKS may, by special permission of Federal Reserve Board, act as trustee, executor, administrator, and registrar.

Provisions of Aldrich-Vreeland Act extended to June 30th, 1915, with changes in tax rates on circulation, and R. S. Sections 5153, 5172, 5191, and 5214 re-enacted to read as prior to May 30th, 1908.

Refunding of U. S. 2% Bonds

At any time within twenty years after December 23rd, 1915, at the request of any Member Bank, the Federal Reserve Board may direct Federal Reserve Banks to purchase at par not to exceed \$25,000,000 in any one year, Government 2% bonds used to secure circulation, and circulation thereby secured shall be retired, but Federal Reserve Banks so purchasing may issue circulation as under present National Bank Act.

Any Federal Reserve Bank may exchange U. S. 2% bonds for one-year 3% U. S. gold notes in amount equal to one-half of amount of bonds exchanged, and thirty-year U. S. 3% bonds without circulation privilege equal to remainder, provided such bank agrees to purchase for gold if so requested at the end of each year for thirty years, an amount of notes equal to the notes so received. Such notes on approval of Federal Reserve Board may be exchanged for U. S. 3% thirty-year bonds.

finance is its apparent simplicity. Unwary investigators are apt to conclude that they have mastered the subject before they have fairly begun it. Many well-meaning people thus become doctrinaires, and subsequently study not so much to ascertain facts as to construct arguments in support of their own theories and in denunciation of everything and everybody else. Some such people produce thunderstorms of rhetoric, full of flash and noise, but empty of the essence which clears the air and freshens the soil. Unbiased truth, thoroughly thought out, should be the paramount object in the study of finance.

Every occupation of man has to do with certain fixed and immutable laws of nature which must be thoroughly understood before that particular trade, business or profession may be mastered. For example, the plumber must know how to construct drainage, water supply or heating apparatus, but first he must take into account the simple laws of physics. Before the physician begins the study of medicine, he must spend a year or more on the subject of anatomy and matters of ordinary hygiene. Similarly, the banker must understand the meaning of the natural laws affecting his profession. Why banks are necessary, how wealth is produced, what are the functions of money, how trade develops, the meaning of values, prices, exchange, trade and commerce, these are questions with which the banker, consciously or unconsciously, comes into daily contact.

WANTS AND WEALTH.—Economic activity centers in human wants. As wants grow in intensity so do individuals progress. A want which produces a desire leads to the effort to satisfy that desire. The satisfaction of this desire is not the final step, for one want satisfied leads to another. Thus there is no limit to human wants. The primary wants are food, housing, clothing; as these are satisfied the secondary wants, ornaments, religion, society, comfort, recreation, education, follow in an order not thus fixed, but varying with environment and in degree of intensity. The varying intensity of wants both for necessities and luxuries influences prices and is measured in part by them. Man's wants are not equal; those which may seem desirable or attainable to one may not be at all desirable or attainable to another. Certain wants, however, are held in common, and being universal, fix standards and habits. From an individual as well as from a social standpoint wealth includes not only material things, as lands, houses, cattle, money, etc., but also those gifts of strength, skill or intelligence exchangeable for wealth. In other words, to have wealth is to have economic goods or claims to such goods. Goods are either free or economic. Under the first would be included water, air, sunlight. These are in such abundance as to satisfy the wants of all; they are the free gifts of Nature. The power of exchange which is present in economic goods is absent in free goods.

VALUE AND UTILITY.—The power of exchange bestows value. Even the free gifts of nature, water, air and sunlight, may come to have power of exchange and value under certain conditions, as in a thickly populated city. By this it will be seen that the notion of value differs radically from that of utility. If men have enough of a thing to supply their wants and to spare, they are fortunate, but the thing will have no value. It satisfies a need or a desire,

therefore has utility; but it commands no sacrifice. Value is not the measure of utility. Value is the measure of the sacrifice involved in obtaining utility. Market value is the measure of the sacrifice involved through exchange in obtaining utility. It remains to determine how this sacrifice is measured. If one is starving, a loaf of bread has great utility; a second loaf utility somewhat less; the third loaf still less, and so on until the fifth loaf marks the point beyond which no effort will be made to secure another loaf. The value of a loaf is determined by the sacrifice that would arise were one to be removed. If one should be removed it would be that one the removal of which would be least felt. Yet the removal of this fifth loaf would enhance the value of the others. This fifth loaf, being the final point of effort, marks the final or marginal utility and from it is measured the value of a single loaf. There is another point about these loaves. As consumption approaches the fifth loaf the thought arises that perhaps some other food would be more pleasing, would better satisfy the food desire remaining. At the completion of the fifth loaf this thought becomes an active factor and rather than take another loaf of bread the change is made to another food. In summing up it will be found (a) that the utility of a good is final or marginal because desire for more will reach a limit when compared with desire for other goods, and (b) that there is always one unit which marks this margin and every change in desire will cause a moving up or down from this margin.

DEMAND AND SUPPLY.—Demand creates the value of a good and it, in turn, depends on supply. If there be an equal demand for two things and the supply of one is less than the supply of the other, the tendency will always be to take that the supply of which is the smaller. By demand for an article is not meant the amount of the article the public will possibly take, but that amount which the public will and can take at a certain price. Likewise supply does not mean the quantity of a good that might be thrown upon the market irrespective of value, but rather the quantity offered at a certain price. The cost of production is generally the base upon which supply rests. If one concern is selling a good considerably above the cost of producing it, other concerns enter into competition with the first, with the result that the supply is increased and the value lowered thereby. Again, if the good sells below cost, to this concern, those producing at the greatest disadvantage or greatest cost may either fail or cease to produce, thus lessening the supply and causing the value to increase. Where there is free competition, the values of goods generally keep close to the cost of production. The value of a thing is our estimate of its exchange power, when compared with some other thing. When we compare two things as to their relative value we call the result price. If one coat will exchange for two hats, we say that the price of the coat is two hats.

MONEY AND PRICES.—With the development of civilization it was early seen that the exchange of article for article was inconvenient and often impossible, and that some one thing should be named for which, in certain ratios, everything else would freely exchange. We call this thing money, and when we speak of price we mean power of exchange in terms of money. We speak of the rise and fall of prices because money is the standard about which prices

Federal Reserve Banks and Districts

Federal Reserve Bank of Boston

DISTRICT No. 1—The New England States—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island and Connecticut.

Federal Reserve Bank of New York

DISTRICT No. 2—The State of New York.

Federal Reserve Bank of Philadelphia

DISTRICT No. 3—The States of New Jersey and Delaware and all that part of Pennsylvania located east of the western boundary of the following counties: McKean, Elk, Clearfield, Cambria and Bedford.

Federal Reserve Bank of Cleveland

DISTRICT No. 4—The State of Ohio, all that part of Pennsylvania lying west of District No. 3; the counties of Marshall, Ohio, Brooke and Hancock in the State of West Virginia and all that part of the State of Kentucky located east of the western boundary of the following counties: Boone, Grant, Scott, Woodford, Jessamine, Garrard, Lincoln, Pulaski and McCreary.

Federal Reserve Bank of Richmond

DISTRICT No. 5—The District of Columbia and the States of Maryland, Virginia, North Carolina, South Carolina and all of West Virginia except the counties of Marshall, Ohio, Brooke and Hancock.

Federal Reserve Bank of Atlanta

DISTRICT No. 6—The States of Alabama, Georgia and Florida; all that part of Tennessee located east of the western boundary of the following counties: Stewart, Houston, Wayne, Humphreys and Perry; all that part of Mississippi located south of the northern boundary of the following counties: Issaquena, Sharkey, Yazoo, Kemper, Madison, Leake and Neshoba; and all of the southeastern part of Louisiana located east of the western boundary of the following counties: Pointe, Coupes, Iberville, Assumption and Terrebonne.

Federal Reserve Bank of Chicago

DISTRICT No. 7—The State of Iowa, all that part of Wisconsin which is located south of the northern boundary of the following counties: Vernon, Sauk, Columbia, Dodge, Washington and Oxauke; all of the southern peninsula of Michigan, viz.: That part east of Lake Michigan; all that part of Illinois located

north of a line forming the southern boundary of the following counties: Hancock, Schuyler, Case, Sangamon, Christian, Cumberland and Clark; and all that part of Indiana north of a line forming the southern boundary of the following counties: Vigo, Clay, Owen, Monroe, Brown, Bartholomew, Jennings, Ripley and Ohio.

Federal Reserve Bank of St. Louis

DISTRICT No. 8—The State of Arkansas, all that part of Missouri located east of the western boundary of the following counties: Harrison, Davies, Caldwell, Ray, Lafayette, Johnson, Henry, St. Clair, Cedar, Dade, Lawrence and Barny; all that part of Illinois not included in District No. 7; all that part of Indiana not included in District No. 7; all that part of Kentucky not included in District No. 4; all that part of Tennessee not included in District No. 6, and all that part of Mississippi not included in District No. 6.

Federal Reserve Bank of Minneapolis

DISTRICT No. 9—The States of Montana, North Dakota, South Dakota, Minnesota, all that part of Wisconsin not included in District No. 7, and all that part of Michigan not included in District No. 7.

Federal Reserve Bank of Kansas City

DISTRICT No. 10—The States of Kansas, Nebraska, Colorado and Wyoming, all that part of Missouri not included in District No. 8; all that part of Oklahoma north of a line forming the southern boundary of the following counties: Ellis, Dewey, Blaine, Canadian, Cleveland, Pottawatomie, Seminole, Okfuskee, McIntosh, Muskogee and Sequoyah; and all that part of New Mexico north of a line forming the southern boundary of the following counties: McKinley, Sandoval, Santa Fe, San Miguel and Union.

Federal Reserve Bank of Dallas

DISTRICT No. 11—The State of Texas, all that part of New Mexico not included in District No. 10; all that part of Oklahoma not included in District No. 10, all that part of Louisiana not included in District No. 6 and the following counties in the State of Arizona: Pima, Graham, Greenlee, Cochise and Santa Cruz.

Federal Reserve Bank of San Francisco

DISTRICT No. 12—The States of California, Washington, Oregon, Idaho, Nevada and Utah and all that part of Arizona not included in District No. 11.

may fluctuate. Prices are the results of bargains. Men who have commodities to sell meet those who wish to buy and the prices at which exchanges are made are the results of these meetings and bargainings. The seller has an idea of the price for which his article should sell, based on the cost of producing it and on his knowledge of the demand for and supply of the article. The buyer, governed by his income and the strength of the desire to be satisfied, has a notion as to what he can afford to pay. Where competition is active among sellers, whose expenses of production vary, the price will be placed at that point where, to some, it will yield a profit, to others just meet the cost, and to others be so low as to force them out of business. Buyers help to bring this result by seeking the cheapest, and thus forcing sellers to come to one price. Where competition is absent and monopoly is present, the price of the monopoly good will be fixed at that point which will bring to the monopolist the largest net return.

Economic Processes

The economic processes are (1) production, (2) distribution, (3) consumption, and (4) exchange. Exchange might properly be classified as part of the process of distribution, but for the sake of convenience it is considered separately.

PRODUCTION.—The factors of wealth production are land, labor and capital. In the Eighteenth Century in France a school of economists called Physiocrats held that nothing was produced except from the soil through agriculture or mining or forests. To manufacture and to trade were not to produce because wealth was not augmented. Adam Smith in his "Wealth of Nations" overthrew this view of production. He pointed out that the manufacturer did create wealth as also did the merchant. Yet he looked on teachers, soldiers and government officials as non-productive consumers. His great expounder Mill went a step farther and included those debarred by Smith, arguing that soldiers produced because they provided security for production and for goods against invasion. Yet Mill excluded lecturers and teachers from the category of producers. Today economists include in production every person and process participating in the creation of values, but recognizes the fact that the foundation of wealth is land, which in economics means the surface of the earth and everything above or below it.

Differing grades of land show differences in the cost of producing from them and cost of production likewise differs on the same grades of land. Some producers reap a greater profit on poorer land than those who produce from better grades because of nearness to market. Others because of the great fertility of soil reap a larger profit even at a greater distance. The expense of producing some crops in the far West, including transportation charges to eastern markets, is less than in sections nearer these markets, because the soil and the climate in the one are far more favorable than in the other. These facts do not apply alone to agriculture. The superior situation of a water power may make it possible for a manufacturer farther removed from the market to place his goods on the market at a smaller cost of production than the manufacturer who is nearer to the market but whose source of power is less efficient. Thus the first manufacturer reaps a larger profit than the second, providing both are producing for the same market, because the price of the article will be determined by the goods which are produced at the greater disadvantage or cost of production, provided such goods are wanted.

The farmer realizes that it will not pay him to so cultivate his land as to destroy the utility of it. He finds that there is a point in cultivation at which the amount of labor and capital he may employ with advantage is limited. If he employs more labor and more capital on the land after this limit has been reached, each laborer and each dollar will receive a smaller proportionate

return. This law is termed the "Law of Diminishing Returns." Assume that five laborers, with necessary appliances, are together working a tract of land of ten acres, the production of which will be two hundred bushels of wheat, which is twenty bushels per acre and forty bushels to each laborer. Now let us add two laborers, making seven to work on the same land the next year. What will be the output of this land for the year in question, conditions surrounding farming remaining the same? Our answer must be governed by the fact as to whether or not the point of diminishing returns was reached with the five laborers. If this point was not reached, then because of the greater division of labor, and the natural increase of the fertility of the soil, the seven may produce three hundred bushels or more than forty bushels per capita. If, however, the limit was reached by the original five, the added two laborers may cause the land to produce two hundred and forty bushels, but the per capita division among the seven will not be forty bushels, as with the original five, but will be less, a fraction over thirty-four bushels. It will be noticed that the additional labor, with its added appliances, has increased the total output of the land, but the per capita division is smaller.

The second of the two great factors of production is man. He produces, through his labor, either alone or in co-operation with others. What he gives to production is determined by his individual capacity and by the ways in which his capacity or ability is used. In the savage stage of human life Nature supplies things for the satisfaction of wants. Men live on roots and berries or by preying upon the weaker animals. Values do not arise in this stage. The race is small in population, low in life, and subject to famine. The principal activity is war, not for the conquest of wealth in order that it may enrich the conqueror and lead to further production, but for subsistence, for the acquisition of hunting grounds, whereby the life of the people may be better assured. With such a stage economics has little, if anything, to do. It considers the subject only as a link in the development of human life. In the pastoral stage of the development of mankind, labor first appears, in the taming and training of animals for beasts of burden and other capacities. Man here had to care for his flocks and herds. In times of drought wells were sunk for water. The procuring of food for cattle and protecting from disease and destruction necessitated labor. The rearing, caring for, protection of these flocks and herds constituted the creation of wealth. As a result population increased because of greater certainty of life, values rose, exchanges were perhaps made. In the next stage, the agricultural, labor was applied to land in the production of crops, life became more settled, population increased, settlement could be made on smaller areas, property of different kinds developed and values increased. Wants which were very elementary in the savage stage, still elementary, but increased, in the pastoral stage, became greater and more complex in the agricultural stage. Side by side with the growth of and the satisfaction of wants grew the law for the protection of property.

There are two main factors in labor power and these are the efficiency and division of labor. Efficiency of labor depends upon both the physical and mental constitution of the individual laborer. Health and strength are two main requisites and they depend upon the quality and quantity of food and climatic and hygienic conditions. The division of labor means the association or co-operation of labor for the purpose of increasing production. The earliest form of the division of labor was on the basis of sex and had to do with family economy, the men doing what was considered the nobler work of war and hunting, while the women performed the menial work. The next form was seen in the old corporations or guilds, where this body of men produced a certain article and that body another article. So on to the manufacturing period, in which trades became divided and subdivided and labor co-operated in a complex way. There are different kinds of co-operation of labor for production. If two men co-operate to pull a wagon, they labor for the same end. This is the simplest form of co-operation. If the first man produces shoes and the second man makes hats and they exchange for the products of each other or for those made by someone else, this may be called

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simple division of labor. The two men are not working on the same things, but by so working they co-operate in an indirect way, because, by exchange, they hope to procure what each wants. The third form is also indirect and it may be very complex. Here each piece of work to be done may be divided into many parts, some workmen preparing one part, other finishing another part, a third set putting the parts together, while finishers, assemblers, packers, and others are employed in the production until the goods are ready for the market.

An employer who can divide the work to be done into many tasks differing in difficulty is able to assign to each task those best fitted to do the work. He is thus able to save energy and capital and to prevent waste, a point which has become increasingly important in modern business. Constantly repeating a given set of operations or a single operation soon makes an expert workman. This redounds to the advantage of the workman in that he becomes a specialist, a skilled worker, and is entitled to demand pay as such. It is of advantage to the employer in that the sum of these repetitions or expert workings leads to more careful results than if performed by those unskilled. And production is increased by it many fold in quantity and quality to the benefit of society. Apprenticeship, which in the old days was by law seven years, is perhaps less than seven weeks. Knowledge of a simple operation may be acquired in a few days. This shortened apprenticeship does away with the waste in materials and tools existing when it was necessary to master the whole trade. Expertness leads to invention, to the development of automatic machines, and while for a short time they may displace workmen, yet because of cheapened production they will lead to an increased demand for labor. The complex division of labor makes places for women, children and older persons, who may be employed in lighter work while strong men may be assigned to heavier tasks.

Capital, the third factor of production, is wealth used to produce more wealth. It does not mean wealth which is to be immediately consumed, nor does it mean wealth laid aside for future consumption. It is wealth that does work. Capital arises as the result of saving or perhaps abstaining from gratifying immediate desires in order that the future may be assured or that then more ability to gratify desires may exist. Production by means of capital is indirect production. That is at first tools and machines are created and these are the capital goods which create consumable wealth. For the creation of capital, Nature and man combine; they are primary, and capital is secondary. Nature furnishes the wind which man, through his labor, harnesses for his use by means of the sail. The superiority of capitalistic production over direct production may be seen in the case of two villages in one of which all water must be drawn by hand and in the other a complete water system furnishes to consumers all that is desired with only the labor of turning a faucet. We speak of the capital of a firm as so many dollars. This capital represents a combination of the capital goods used by the firm measured as money. The goods, machines, tools, constitute the capital, money is the common measure of them.

Banking is the only business where the terms money and capital may be said to be synonymous. The bank deals in money as its raw material, stock in trade or capital goods. Hence the capital of a bank is represented by a money value consisting of the actual money.

Some kinds of capital may be used only for specified operations, as machines for knitting; this is called fixed capital and needs renewal only from time to time. Other capital may be consumed with a single use; this is circulating capital. As industry grows capital becomes more and more fixed, with the consequence that recovery from business depression is apt to take longer because of inability to turn these machines and structures to other uses than those for which they were designed. Capitalistic production, as we know it today, accompanied by the division of labor, is the outgrowth of the Industrial Revolution of the latter part of the Eighteenth Century. While capital existed in the medieval period and tools were made, these for the most part were made by those who wished to use them. Capitalism as a separate factor in industry, came with the system of wages. From

the beginning of the modern period down to the Eighteenth Century industrial freedom developed until laborers, in turn, became employers, having their own capital. With the rise of invention in the Eighteenth Century, it was necessary to establish these machines in factories and for this purpose capital was furnished, not only to establish the factories, but to employ the labor necessary to run machines. Thus arose what we call the capitalistic class and the laboring class, the one receiving its return in the shape of interest; the other in wages; but both benefited by the increased and diversified production leading to higher standards of living.

DISTRIBUTION.—The factors of production are land, labor and capital, which include all of the agencies by which economic goods are produced and reach the consumer. To the landlord is paid rent; to the capitalist, interest; to the laborer, wages. These are the items which the producer includes in the cost of producing any article, and he figures likewise that a surplus or profit will accrue over and above expenses or cost of production. How much of the wealth produced by the factors of production shall go to the landlord, how much to capital, how much to labor? The channels through which wealth produced goes back to those producing it are, as named, rent, interest, profits, and wages. The problem of distribution is to show what is the cause of the size of the share of total production going to each of the factors of production through the channels of distribution. By distribution, therefore, is not meant simply transportation, but a study of the means and forces by which wealth produced is divided among its producers. In a primitive community or among people of few and small interests this problem is simple. If two fishermen co-operate on a fishing expedition the total catch will be divided into equal parts. In a highly organized manufacturing stage, however, where much capital is employed, perhaps subscribed by many bond and share holders, employing thousands of workmen, dividing what is produced by this combination of producers into shares similar to the number of individuals having a part in production, is a very complex problem.

Wages differ from rent, interest, and profits. By a wage is not meant every return for labor. The farmer may plant corn yet the product received is not wages, although it is a reward for his labor. A wage is a specific and definite sum paid for service. It must be paid if business is to be carried on. It differs from profit in that the latter is variable. Some say that wages are paid out of profits, but if there are no profits then how can there be wages? Some say that there is, out of the total wealth of a country, a fund set aside for the payment of wages. As this fund increases or decreases with the increase or decrease of wealth, so wages increase or decrease. This is called the "Wage Fund Theory." This theory is not exactly true, because an increase in wealth might be stored away so as not to create an increased demand for labor.

The standard of wages is the great sign of the material condition of a people. It may be said also that the social conditions are measured by this standard as they depend so largely on material prosperity or material deficiency of a people. Where wages are low and wants, although existing, cannot be satisfied the standard of the people tends to become fixed, unsatisfied desires become dormant, ideals do not exist, and business activity degenerates. On the other hand where wages are high and wants increase and become intensified by actual and possible satisfaction, ideals arise and the business and social standards of the people become elevated. Progress is indicated when real wages rise. There is a difference then between wages.

By nominal wages we mean, in terms of money, the actual amount received for service; by real wages what can be bought with this amount. Wages as cost of production are nominal wages; as the measure of well being, real wages. If one holds to the wage fund theory, then wages would be determined by the amount of wealth set aside for payment for service and would increase or decrease as this fund increased or decreased or as the number of laborers increased or decreased and thus drew more largely or in a smaller degree on the fund. Wages, however, are determined in much the same manner as price. We have seen that the price of an article depends on cost of production and on

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demand and supply. As for cost of production the price of an article depends on the cost of production of that portion of the article produced at the greatest disadvantage, that is, the dearest portion, provided it is needed on the market. So, from the laborers' point of view, the wage paid must depend on the cost of living of the dearest portion of labor needed for production. It is the necessity of the family, rather than that of the individual, that determines the rate paid. The employer will pay as little as he can, consistent with his desire to get his work properly done. This social force or demand, leaving out of account the unionizing of labor, controls wages largely and on it depends often the establishment of business. If a manufacturer wishes to erect a plant for the production of certain goods, the market price of which he knows within limits, he will not erect the plant in a community where the prevailing rate of wages is too high. Wages constitute a very large element in the cost of production, and thus determine to that extent, at least, the development of business. They depend, too, on education, ideals, tastes, the development of which leads to higher intelligence, greater efficiency, more economical production, a gain alike for the laborer and the employer.

"Rent is the surplus of the crop above the cost of cultivation on the least productive lands contributing to the supply of the market. Admitting the private ownership of land, that surplus is left in the hands of the landlord." This is known as the Ricardian formula, because propounded by Ricardo, an English economist, statesman and financier. Rent, put in another way, is the return received for the use of land and economic rent is the net return received after all expenses have been met. It comes from the differences in yield of different grades of land supplying the same market and is measured by the amount of these differences. This law of the origin of rent may be illustrated by taking a given tract of land, portions of which differ in fertility. One part will produce eighteen bushels, another sixteen bushels of wheat per acre. As long as the population is small those owning the eighteen-bushel tract will compete with one another for letting their portions of it to the people and this competition will result in so letting it that there will be to each competitor no surplus or rent above the cost of cultivation. Now, as people become too numerous to be sustained by this tract, some of the sixteen-bushel tract must be cultivated. Why not put more labor and capital on the eighteen-bushel tract and thus produce more wheat? Because of the Law of Diminishing Returns. As soon as the sixteen-bushel tract begins to be cultivated, rent arises not for this tract because it is in the same position as the eighteen-bushel tract was at first, but it arises for this eighteen-bushel tract because it will pay better to cultivate a part of it and pay something than work the new tract for nothing. How much will be paid? Two bushels may be paid because it will be more worth while to pay this than to move to the tract where less may be produced. Some must, however, move and so the landlord may say pay two bushels rent or leave.

What is the use of such a formula as that of Ricardo? Is it just a theory alone, or can it be applied? If it can be applied, is it? If it is, under what conditions and where? In our example it was assumed that an owner on the eighteen-bushel tract would let a tenant leave if he would not pay the full two bushels and also that the tenant was free to leave rather than pay the full amount. Such conditions exist in the United States more than elsewhere. The landlord is not so constrained by class or social feeling as to keep a tenant at a lower rental if he can get one who will pay more. Nor does a tenant feel that he must remain and pay a higher rental than he would have to pay elsewhere for as good conditions because his forbears worked the same land. In parts of Europe the social status of a landlord would be impaired if he should freely oust tenants from his estates whose forbears had for a long time been tenants of the landlord's ancestors. Too, in another direction, we see the law of rent applied. There are city lots used for business purposes, lots adjoining used for residence purposes, and between these two distinct classes lots that may or may not be used for one or the other according as advantage dictates. The business man might rent one of these in-between lots for a

much smaller rental than a lot in the business section, yet he takes the latter and pays much more, because he concludes that the advantage of location will more than compensate him for the difference in rent. The use of such a formula is that it sets an ideal. It does not give us a rule by which we can determine the rent of a single tract of land. In theory the shell from a gun describes a perfect parabola; in practice it does not, because of pressure of wind and force of gravitation. This law does furnish a limit of rent and it shows that rent is a problem of landlord and tenant and is deflected from its theoretical path by differences in intelligence, necessities, and customs.

Interest is the return paid for the use of capital. We have seen elsewhere that capital is the result of saving or abstinence, that wealth must be used up either to maintain the producer or to take the place of that wasted, or both. Why save? If man has no motive he will produce only sufficient to supply his wants for consumption. Man does not gather materials and tools just for the pleasure that the effort brings, but he wants to get something from their use to repay him for abstinence from immediate consumption and to compensate him for all his effort. That return which he seeks from the use of tools and materials is interest. In the usual sense interest is paid for the use of money. In the larger sense it is paid for capital goods, as tools and raw materials.

How much interest shall one pay? How is the rate determined? Interest normally depends upon and is determined by the demand for and supply of capital or its representative, money. Under healthy business conditions a high rate of interest will attract capital and thus the rate will be lowered by the incoming capital satisfying the demand. So a low rate of interest indicating competing capital may cause an outflowing to points of greater demand and thus the raising of the rate. Why not issue new money when the interest rate is high and thus lower the rate? Because the issue of more money will not increase capital goods, providing there is already sufficient money to make all necessary exchanges in the community. Under such conditions the issuance of more money will simply lower the purchasing power of money; it will not increase capital and will therefore not affect the rate of interest. A high rate of interest is often looked upon as detrimental to a community. It is not the fact that the rate is high that is detrimental, but that hardship exists in the scarcity of capital. Indeed, if business conditions are generally good, such a rate is a benefit, because it acts not only as an invitation to capital, but it encourages people to save. Yet a high interest rate may exist because of poor business methods, of corruption in government, of instability of law. On the other hand a low interest rate may indicate in a progressive community that there is too much capital for use, or it may show a dull and slothful people, or such a state of society that no industry would venture to rise in anarchical surroundings.

There is much paid in the form of interest which is really insurance. In such a payment, interest is really the part of the return which would be made if the investor thought that there was a reasonable certainty of the payment of the principal, while the amount above that point indicates the thought on the part of the investor that his capital may be in jeopardy and for that reason should demand extra compensation to insure him against possible loss of his principal. Rates on usual risks are held by many to be higher than these risks warrant. The United States Government is able to borrow money and to obtain all that it may need at three per cent, while the interest on good mortgages is five per cent. It is held that the latter rate is not in proportion to the former. The reasons for the lower rate are obvious in that the investor considers the government investment as more secure, as less likely to be burdensome, as in the case of mortgage foreclosure; and, too, in the investment of trust funds in government bonds there is the absence of taxation and attachment.

In dealing with ordinary commodities the parts of a commodity will bear essentially one price in the same market, as a certain grade of tea will bear the same price in different stores in the retail market. It would seem that capital should, therefore, bear the same rate of interest in the same market, as in the government bond market. This, however, is not true, as seen by the fact that

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if one has an amount which he wishes to invest, he may invest part of it in United States bonds, and another part in Turkish bonds, but the interest rate on the first will be much lower than on the second, because to the normal interest on the second is added an amount to cover the extra risk, to insure, because of possible instability of the latter government, politically and financially. There are, too, different rates in different markets even where the securities are really equally good, because the idea of security is, in a sense, a state of mind. As a rule, where a country has developed its economic life, where business affairs are conducted systematically and well, there the rate will be lower than in a newer country which is just forming its business system and has yet to develop a reputation.

The word "profits" may be interpreted in two ways. It may mean the total earnings of an industry for a specified time before distribution has been made, or it may mean what is left to the manager after all of the expenses of production have been met. This net profit has been called the wages of management, but it is not wages, because wages constitute a definite sum paid for service, while profits may be more or less or nothing, depending on a variety of circumstances. However, while profits are not wages of management, they depend largely on what may be called wages of management. When one who is working for a salary decides to enter business for himself, he expects that the net income from that business will at least equal the salary which he relinquishes. This expectation may not be looked for at once, nor may it be realized at once, but this man has reasoned that the point will not only be reached in a reasonable time, but that the ultimate return will be much greater than he could hope to acquire as salary in the position he is relinquishing. Now, unless such a hope is present, he will not enter the ranks of managers or employers, but will remain an employee. The deduction is that such a wage of management will mark a point below which profits will not for long descend, because if they persist in falling below this point, it will pay better to give up the management and return to the salaried position.

A manufacturer's expenses of production consist of rent, interest, and wages, and these are more or less fixed charges, particularly the rent and interest. Some firms are just meeting expenses, some in the same field have a small amount left after meeting expenses, others by reason of the better union of the forces of production and better management, have a still larger amount left. The firm just meeting the expenses of production may be called the marginal firm and measured from it the second firm makes a small profit, the third a larger profit. If anything happens in the field of industry by which the expenses of the first becomes larger and it is forced out of business, the second then becomes the marginal firm. The elements which constitute the expenses of production are to a large extent fixed for the manager. The rent he pays is determined by forces perhaps beyond his control; what he will pay for the use of capital cannot be determined by him alone, and as for wages, he must be governed within limits by the standard of life of the laboring community and by the demands of unionized labor, if such exists. If these items are largely fixed, then he must depend upon the right quantitative and qualitative organization of the factors of production, and upon prices, both of the raw material from which he produces the finished article, and the price at which the latter may be sold. These changes in purchasing and selling prices, more than anything else, determine profit and loss. They are considered so much to be the governors of success or failure that in many ways agreements are made between producers whereby a certain stability of price may be maintained.

Profits, of course, increase as selling prices rise. But as these prices rise they furnish a motive, either for the entrance of new concerns or for the enlargement of old and established businesses, or both. Thus there will come about a demand for more land, labor and capital, a competition for these with a consequent increase in rent, wages, and interest, and unless prices continue to rise, these added expenses of production will soon offset the extra profit looked for. On the other hand, falling prices will force some concerns out of business, will cause others to decrease the expenses of production by producing smaller quantities of goods, thus using less labor and capital, but by so doing the concern may still reap a

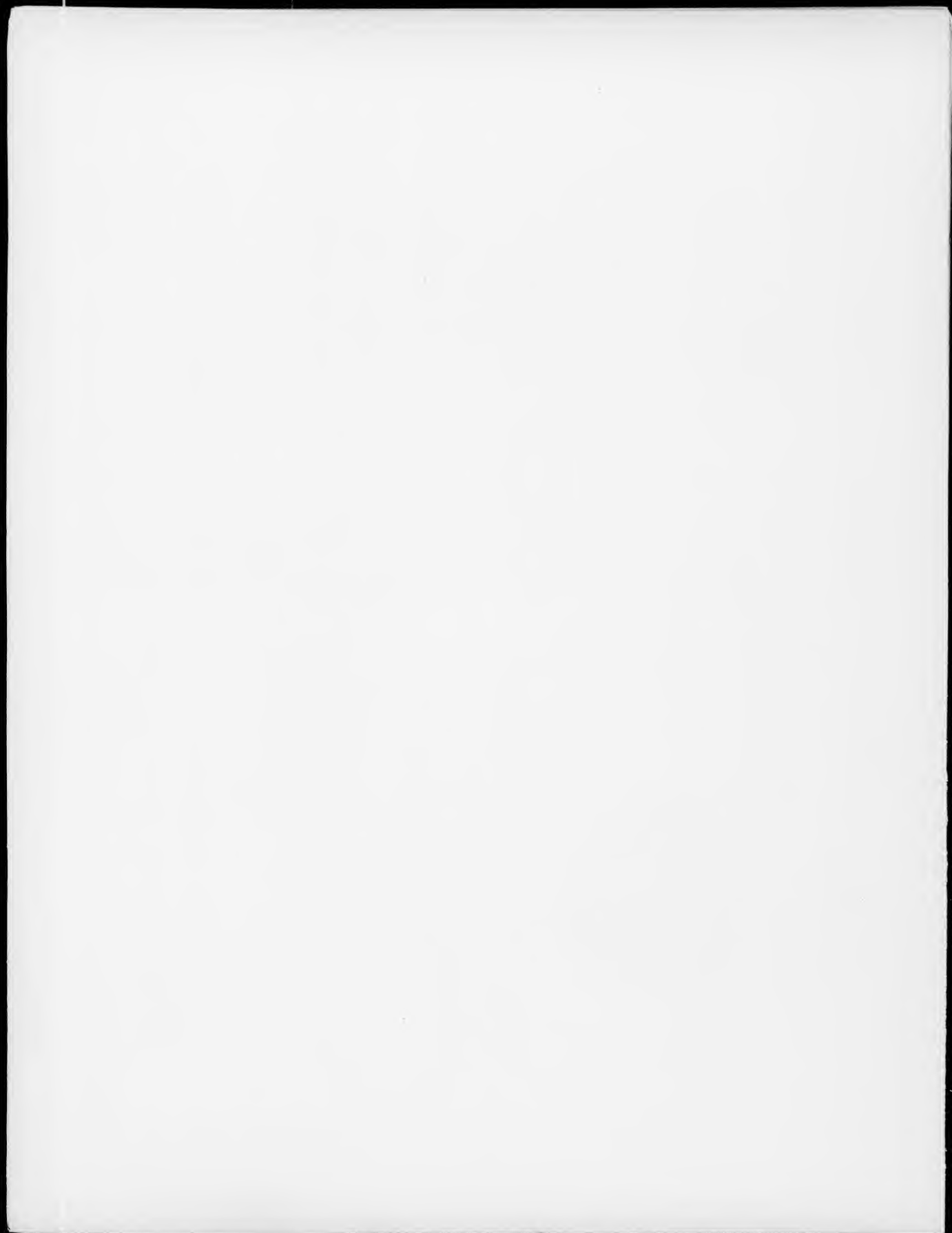
profit due to the decreased expense of production. Thus we see that where competition exists, profits tend to constantly decrease, either by the entrance of new businesses, the enlargement of old businesses to meet increased demand, or by falling prices, the curtailment of production.

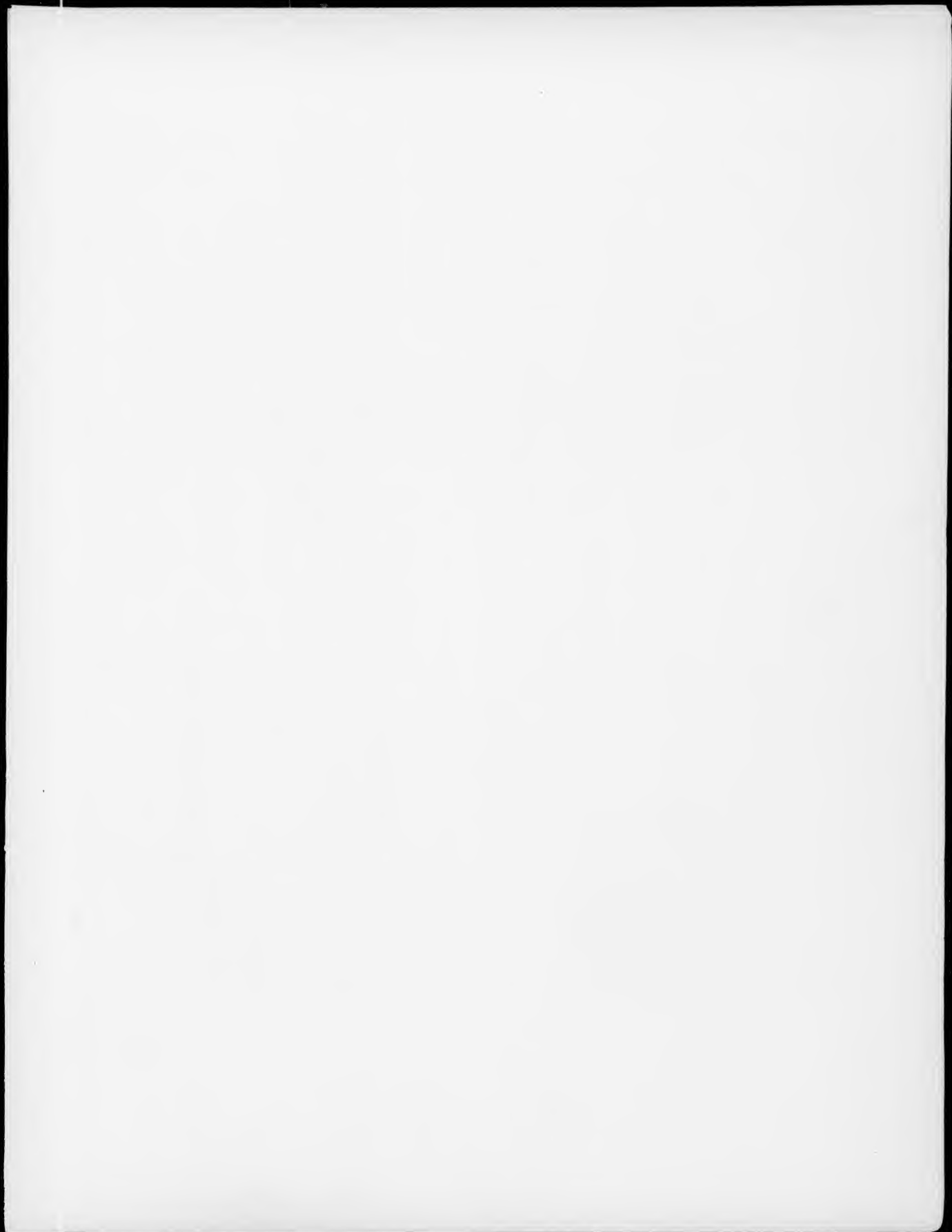
In the foregoing discussion competition has been assumed as the basis for argument. In dealing with monopoly conditions are changed. The essential fact of monopoly is control of supply, and if supply may be controlled, then price may be controlled within limits. It, therefore, seems best to consider monopoly as to its kinds, the effect on price and on profits. There are, roughly, personal and natural monopolies, capitalistic and legal monopolies. A personal monopoly would exist where one had a talent in art which no other possessed. He could thus control the supply of that which he produced, and fix the price. A natural monopoly might be a monopoly controlling some product of nature found in a particular place, and there alone, or it might control a railway system or a power plant, in which businesses the expenses of production are in inverse ratio to the growth of the business. A capitalistic monopoly is the result of the control of large portions of capital, all directed to a certain end, while legal monopolies may be public or private—public where conducted by government; private where monopoly rights are granted.

It is not necessary that all or nearly all of the supply of an article should be controlled in order to control the price. The control of fifty per cent. might be sufficient, perhaps the control of less than that amount, because by the withdrawal of a portion of this fifty per cent. from supply there might result such a scarcity of the article as to cause an increase in its price, or at least the maintenance of price at a high point. Now, at what point will monopoly adjust price? Monopoly will always tend to place the price of its product at that point where it will receive the largest net return. It will not place the price at the highest possible point, not alone because it will not receive the largest net return by so doing, but because its power over price fixing is limited in other ways. If a monopoly exists in the production of corn products, it is always faced by the fact that if the price of its product is too high, consumers will substitute some other food product. If its price is high, the expense of production low, there is constant danger that competitors will enter the field. If it presses in some cases so heavily as to act in restraint of trade it faces the danger of interference on the part of government.

CONSUMPTION.—Consumption is the utilization of wealth for the satisfaction of wants; it is the object of production. While it is the object of production it also governs it, for whatever form production assumes it is governed by consumption. The savage who provides his own living kills only that which he wishes to consume. The civilized man who provides things which are to satisfy the desires of others, provides or produces only those that will have a market. It has been said that the manner in which a community consumes its wealth determines the character of its production and sets its standard of life. With the exception perhaps of the most primitive products necessary to life, consumption depends on the habits, customs, and tastes of a community; it is a social fact. In some sections of a country things are produced that are not used in that section, but are used elsewhere; the use elsewhere is the governor of the production there. "Consumption is the final expression of desire and demand" and lies at the base of business.

The real purpose of consumption is to obtain pleasure or to keep away from pain. It will be a pleasure to one who is starving to have bread to consume, but even before he has satisfied his hunger a point is reached where the consumption of bread, while relieving hunger, ceases to give satisfaction. If, at this point, there can be a variety of food offered, the ultimate satisfaction of hunger will be accomplished with increased pleasure. This fact underlies business. How often the product of the proverbial boarding house with its deadening monotony causes loss of patronage and absolute failure. Wherever possible the man who progresses will change his form of consumption in order to obtain the greatest amount of pleasure. Consumption is influenced by environment and taste. If a nation is composed of people who





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consume only necessities, who are satisfied with cheaper grades of clothing, who have no æsthetic tastes, among whom there is uniformity of desire; that nation lives in a groove, the very narrowness of which is stultifying. If, on the other hand, a nation is composed of people who have varied demands and interests, who are always seeking more pleasure through larger and wider production, to whom art, literature and music appeal with ever increasing force; that is the nation in which there will be many employments, from the simplest to the most complex, in which people will progress. Thus it is that the desires of a people will determine both its collective life and characteristics of individual development and business.

The first want of men, as has been stated, is food, and among primitive men this may, for a long time, have constituted the only want. Later there developed the desire for clothing and housing as men entered the colder zones and heights of the world. If one can imagine these desires to be fully satisfied and a surplus to exist, what will be done with this surplus? Perhaps, in point of strength, the desire, from instinct, for the companionship of the opposite sex is second only to that for food. The surplus then will enable a man to rear a family. Men do not rear families because they wish to increase the strength of the State, nor because they, in old age, wish to lean upon the children for support, but because it is natural for men to wish for families; it is instinct within them, and they sacrifice for wives and children that which they might have enjoyed if these were not. It may be imagined that the family has so grown as to call for a greater amount of necessities than this man is able to produce; what will be the result? Will those coming last be obliged to do with less; will the denial that must take place fall upon the children or upon the parents? The standard of life of the entire family will be lowered, each will have to give up something, but the effects will not be equal. In the case of the father the reduction in food may diminish the efficiency of his labor; that which was formerly laid aside to provide for emergencies has been consumed, so that illness of the producer further lowers the position of the family. If this state of affairs be applied to the whole community, can the original strength of the community be renewed? At this point disease and famine will enter to assist in the recovery of strength, but history shows that these have never been able to restore the equilibrium. The procreative force acts so strongly that there are many examples that show an increase in population in the face of dire distress and famine. If this is so, will there not come a time when population will entirely outrun production? The English economist, Malthus, said that population tends to increase more rapidly than the means of subsistence. He assumed an average of four children to each family, and reproducing in like number, population would grow in geometrical ratio, while subsistence grew in arithmetical ratio. He estimated that population would be doubled every twenty-five years and concluded that: "In two centuries the population would be to the means of subsistence as 256 to 9; in three centuries it would be as 4096 to 13; and in two thousand years the difference would be almost incalculable." He looked upon famine, plague, poverty, and war as agencies of Providence to maintain the equilibrium between population and product. Considerably over a hundred years have passed since Malthus enunciated this doctrine. Today we see in nearly every nation a struggle for markets. The development of productive methods, the increase in labor efficiency through the division of labor, the work of capital, have all led to a vast production constantly seeking to satisfy the ever-increasing range of human desires. It is not for us to say that production will always exceed or even keep pace with increasing population, because the earth cannot support an unlimited population. It is not, however, famine, plague, and war that will limit population, if past experience is a criterion for the future, but rather it is the growth of stronger and stronger wants, the diversification of desires, that will set limits to the procreative force.

The manner in which people consume is often as important as what they consume. We have seen that the efficiency of labor has at its base sufficient food in quality and quantity, and that such efficiency is as much endangered by too much food as by too

little. The right qualitative and quantitative relationship must exist between food and the laborer as between labor and capital or land and labor, in order to produce the greatest return. Within the past few years science has taken up the question of economical consumption from the food point of view. Governments have been and are experimenting with different foods in order to find what will be the cheapest combinations of foods that will contain the necessary nutriment and be economical for the consumer. It has been found that the poorer families are wasting much of their incomes on foods in which the nourishment and strengthening qualities are less than in other combinations more carefully selected and cheaper. It may be asked what has this to do with the question of wealth consumption? Will not more wealth be consumed and produced if these families are less economical in their consumption than if more economical? The answer is found in the fact that if there is the same efficiency obtained at a smaller expenditure, these families will have more left to devote to something beyond mere necessities; there will be that diversification of desires and the satisfaction of them, that feeling of hopefulness and energizing of ambitions that running throughout the community will quicken the pulse of business, increase efficiency, speed up production, arouse new desires, and elevate the standards of life.

The questions of economical consumption and of luxury are closely related. In a given community most of the people by their incomes are limited to the necessities and comforts of life and must forswear the luxuries. What is a luxury? Some one has said that it may be defined as an economic good that is not a necessary, meaning by necessities the basic things of life, as food, clothing, and housing. There can be no fixed definition for necessities or for luxuries; these must be judged for each class of consumers. Another has called a luxury the "gratification of a superfluous want," and points out that all new wants are superfluous which, being constantly satisfied, become in time necessities and in this way has production progressed. Let us accept as a formal definition of economic necessities, "the things absolutely essential to the industrial efficiency of the average family in the class considered, together with the things that are preferred above the absolute necessities by the member of the family who directs its consumption." If such things are denied to the families of this class, then there takes place that underconsumption which reduces the efficiency of its labor power.

We may call consumption private and public. Under the first is considered the consumption of wealth by individuals as such, under the second the consumption of wealth by society through systems of public utility as maintained of government, parks, schools, libraries, etc. In both cases production is affected in much the same manner; the habits and desires of the people govern both alike. As these govern consumption so are they influenced by it. We have said that the rise and decline of a nation may be traced to the manner of its consumption of wealth. Wherever there is small consumption their production will be by means relatively costly, because with a small demand there will not exist that division of labor and use of capital that make for cheapening of production. Hand production is costly and lacks variety; machine production is cheaper and more varied. Variety and increase of wants call for larger markets, new inventions, the greater use of capital, the extension of the machinery of distribution and exchange.

EXCHANGE.—Exchange may be defined as (1) "the act of giving or taking one thing in return for another," and (2) "the process of settling accounts or debts between parties residing at a distance from each other, without the intervention of money, by exchanging orders or drafts, called bills of exchange." It is to the first point that we wish first to direct consideration. Today exchange, the giving and taking of goods in return for others, occupies an important sphere. While production has for its ultimate object the satisfaction of human wants, that satisfaction can only be reached by the acquisition of such goods as the individual desires but cannot or will not produce, and which he may obtain from others by exchanging goods or services which he possesses. We have seen that wealth now produced is not often directly con-

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samed by the producer, but that the latter depends on exchange to bring to him the things he wishes. So we may say that the function of exchange is to bring producer and consumer together. This idea of exchange did not exist in the first industrial organization among primitive peoples. Indeed the hunter looked upon the game he procured as his own. The motive of the effort put forth was the direct satisfaction of his desire for food. Each family was a self-sufficing group, or if community of goods existed then each worked for the common storehouse and took thence what was needed to satisfy desires. The idea of exchanging product for product did not develop. However, as the family, at a later period, became enlarged by the addition of serfs and slaves who labored for its various needs, and foreign merchants passed through various countries, occasional exchanges came to be made. Trade thus became international before it became national.

When men ceased the roving life, settling down to agriculture, and towns began to grow, there arose a simple division of labor where trades were divided one from another, each governed in the character of its production by a law of its own. This division of labor, however, led to exchange, which was carried on in each town in the market place. To this point those wishing to procure goods of different kinds took their products for trade. As towns grew larger in number and more manufacturing took place, a class of merchants arose, trading from town to town, and trade became rational. This nationalization of exchange followed closely political development in different countries. Indeed, trade did not become national until nations were built, until the parts of what are now states were cemented together under centralized authority. Nations have not yet ceased to expand, and along with this expansion into the unattached portions of the world, indeed as a reason for it, commerce has expanded. The great conflict between England and France in the Eighteenth Century was not only for political predominance, but also for commercial supremacy. Commerce was developing in colonies through large chartered companies formed for purposes of trade and sent out by England, Holland and France. This was a work of trade commenced in the Seventeenth Century and not yet completed. This, however, remained national commerce or trade. It was but the expansion of the nation along wider lines. Trade has become really international in the present manufacturing period. The invention of the steam engine and its application to manufacture and transportation, together with the invention and perfection of other machines, has caused the market to become international, and at the same time has bound nations together into interdependence. This international trade has brought with it, through changed economic relations, problems of industry, of political development, international problems of labor and capital. Because of it the struggle of world powers is now for commercial rather than political supremacy, because other things being equal control of commerce means strength.

If it were impossible for man to exchange his products for those of others, it would be necessary for him to produce all things which he needed. Thus there would not exist that division of labor either between men or nations which makes for the largest development. The sum total of wealth would be far less, population smaller, incentive lost, progress stopped. Without exchange man could not produce those things he would best like to produce, but he would be obliged to produce many things he could otherwise obtain under a system of exchange. If one would wish to view concretely the importance of exchange in life he may study his own dinner-table, not one of the things on which he has had a hand in making, but which he has been able to procure because of service he has rendered in other fields of production, the results of that service exchanging either directly or indirectly for those things he is about to consume. Thus exchange means the production and utilization of a vast amount of wealth otherwise impossible of production, and exchange develops capacities otherwise impossible of development.

We have stated that exchange became international before it became national. By that statement was meant that through traveling merchants from countries far removed, people of a neighborhood, who produced the same classes of goods and thus

had no object in exchanging with one another, obtained things which were not produced in their environment. Through the influence of the Crusades goods of the Orient were disseminated through Europe. Trade was maritime before it became overland. As trade expanded, demand increasing for more and varied goods, the traveling merchant was supplanted by the storekeeper, to whom the individual took his goods for exchange. These settled places of exchange made for development of product because of the greater certainty of disposing of it and because these storekeepers kept constantly a supply of things desired by the community. The second machine of exchange may be called transportation. It has served its purpose, first, because through improvement of its means the time between points has been greatly reduced and the amount of goods carried has been greatly increased, and, second, because of these improvements the character of goods carried has been extended. The old days of rough roads and slow carriage have given way to the perfected railroad. The three days consumed in hauling a wagon load of freight from New York to Philadelphia has changed to the train possible of carrying a hundredfold as much in a few hours. The refrigerating car of the modern railroad makes possible the carrying of perishable goods in large quantities where formerly such goods could not be transported.

We have stated how exchange arose as soon as industries became divided and men did not produce those things which they consumed. This exchange was at first the exchange of goods for goods. However, as industry developed through growing markets and varied products it became increasingly difficult to exchange goods for goods. If one wished to exchange a sheep for shoes he had first to find a manufacturer of shoes who wanted a sheep badly enough to trade. Not only this, but there would arise an argument as to how many shoes the sheep was worth. In other words the ratio of exchange had to be determined at each exchange under this system known as barter. Therefore it became necessary to find some one thing for which every other thing would exchange or against which the value of every other thing could be measured, and thus money arose.

Money and Currency

Money is the medium of exchange, and the efficiency of money is determined by the necessities of exchange. A community should have as many exchanges as will cause its factors of production, land, labor and capital, to reach the highest productive point, and it needs no more exchanges than these. Therefore each community should have as much money as will make possible the carrying on of these exchanges most efficiently and it needs no more. How does money do this? It does this by eliminating the necessity of each producer seeking a consumer, the argument consequent upon their meeting and the discussion relative to a ratio of exchange. In short, it does away with barter, thus saving time and labor. What may constitute money? Anything that is without question accepted by producers in return for their products. From earliest time the two metals, gold and silver, have displaced other metals and commodities, among all people who have had touch with them, as money. The chemical properties of gold, silver and copper change very little if at all over long periods of time. In the order named they come from nature comparatively pure. Their brightness, the ease with which they could be worked, led to early use as ornaments and in the industrial field. The fact that a large value was contained in small bulk made transportation of large values easy. Durability, due to chemical properties which made deterioration and decay nearly impossible, gave assurance of stability from year to year and admitted of melting and recoinng without loss. Homogeneousness,

one piece of the pure metal like another, coupled with weight, color and metallic sound, especially in the case of gold, made counterfeiting difficult. Added to these the fact that the divisions of a block of pure metal would equal in value the original block, having lost no value in division made these metals in all respects those most highly sought both as media of exchange and for the arts.

The Constitution of the United States gives to Congress the power "to coin money, regulate the value thereof, and of foreign coin, and to fix the standard of weights and measures." Thus the power to coin money is a sovereign power, and such is true of every nation at the present time. It is a sovereign power because the place of money is so important in industry that a disturbance of its value that might come about either through the indiscriminate power to coin, or through the ready counterfeiting of coin issued by sovereign power, would make uncertain all industry. Coinage is the determination of the quality and quantity of materials used as money. Some kinds of material which have been used as money have not been subjected to such determination because it was necessary only to count the units as in the case of sheep or cattle. The last stage in the development of the mechanical side of coining was reached when coins were made of metallic discs stamped on both sides and milled on the edge.

The imprint on a five-dollar gold piece conveys this meaning: "The Government of the United States guarantees this metal disc to be gold nine-tenths fine, weighing 129 grains, containing 116.1 grains of pure gold." In spite of the clause in the Constitution quoted previously, Congress can have but little control over the value of metal admitted to free coinage. Values are created by economic laws as we have learned. Regulation of money values applies to token money.

STANDARD OF VALUE.—We have considered money as a medium of exchange, but there are other uses which depend on the use already considered. Money is used as a common denominator or standard of value against which other articles are compared. In making exchanges where no money is used such exchanges are made with the relative value considered in terms of money. Many financial ills and heresies can be traced to the confusion that exists in the popular mind between money as a medium of exchange and money as a standard of value. For instance, in referring to capital in terms of money, money is used as a standard of value, yet the two terms capital and money are generally confused. The appraised valuation of the City of New York is over eight billions of dollars (standard of value) although there is less than half that sum of money (medium of exchange) in the entire United States. So also, the total bank deposits of the country (1914) are around seventeen billions of dollars (basis of credit) which is a third use of money, a standard of deferred payments or a representative of purchasing power. The student will be able to keep these three uses of money clear by remembering that the same money is used over and over again leaving behind not the actual money but the imprint of its value whether put into land, capital, credit or bank deposits. The third money use may be stated as use for credit; that is, as a standard of deferred payments. When property is sold on time, the

terms are for payment later in money. If one is to be repaid at the end of a year for a certain quantity of corn, for example, one would not want an equal amount of corn, but an equal amount of purchasing power represented by money. Payment in corn would not be equitable depending on whether it was scarce or abundant or of larger or smaller utility at the end of the period. Evidently, however, even money is not a perfect standard of deferred payments or common denominator of value, as money fluctuates itself in purchasing power, that is to say, prices sometimes exhibit a general rise or fall. In the United States, if we say that the price of an article is a dollar we mean that the article will exchange for 23.22 grains of pure gold. Now if the price of the article at another time is quoted as one dollar and fifty cents, what is meant? Has the value of the article changed or has the value of the dollar changed? This cannot be determined by considering one commodity alone. It can be determined by taking into consideration a number of commodities. If it is found that the value of a number of commodities in terms of money remains fixed then we can conclude that the value of money in the example quoted has not fallen and that the price of the single article has increased. If, on the other hand, the prices of all goods have changed upward then the value of money has fallen.

Another use of the word "money" which it is well to refer to, is the figurative use meaning "wealth." We say a man has money when we wish to convey the impression that he has wealth. As a standard of value or basis of credit he may have much money, yet as a medium of exchange he may have very little.

MONEY AND VALUES.—It has been stated that the value of money to the individual is determined by its marginal utility and that price is the result of bargaining. While these things are true yet the value of money is also created by demand and supply. Demand for money in a community is not governed by the total amount of wealth, nor is it governed by the whole number of exchanges that are made. There may be much wealth in a community that is stored, that is, not entering at all into exchange. So there may be many exchanges made by barter, the trading of goods for goods, which, while they are measured in money ratios need no money to accomplish the work of exchange. Various forms of credit instruments such as notes, checks, bills of exchange may take the place of money in making exchanges and thus lessen the demand for money. These, however, can never do away with money, as they depend on it for their power, they being the representatives of it. Money there must be. It may be so depreciated, so poor, so unstable as to impair industry, yet there will be a demand for such a machine and the demand will depend on the money work to be done. Demand in the case of gold does not mean only demand for gold as money. There is a money demand, an arts demand and a credit demand. Now, if there is an increased demand in one of these fields it tends to increase the value of gold and thus to withdraw it from the other uses. Unless this increased demand is balanced by an increased supply an increase in value will take place and prices will fall. If the value of money is frequently changing there will be lack of confidence, contraction of industry, lessened demand for money. If, on the other hand, the money is con-

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sidered stable in value, confidence will exist, business will thrive, money demand will increase. In general throughout the world three kinds of money are in use, standard, credit and token money. Standard money is that against which the values of all other moneys are measured, and is legal tender. It may be coin or paper, but is usually coin, and coin the value of which is equal to the bullion contents.

COINAGE, FREE AND GRATUITOUS.—In the case of standard money the law declares that any one may take standard money metal to the mint and have it coined. This is known as free coinage. It is to be distinguished from gratuitous coinage in that this means that the government makes no charge for the expense of the manufacture of money. By free coinage of gold we mean that any one may take gold to the mint and have it coined or receive in exchange for it legal money. The law does not permit that any one should take silver to the mint and have it coined. Therefore there is not the free coinage of silver in the United States. Congress may say what shall be standard money, how much metal it shall contain, what per cent of pure metal and alloy, in what denominations it shall be issued. The standard fixed in 1837 is now the gold dollar of 23.22 grains of pure gold, nine-tenths fine, making a dollar of "standard gold," which is the pure gold plus the alloy. In 1792 the silver dollar was likewise proclaimed standard money and in 1834 was also made 9-10 fine and was 412.5 grains. In 1873 the silver dollar was demonetized and in 1878 remonetized, but not with the privilege of free coinage. Credit money is that which is issued on the credit of the government. It may be either metallic or paper money and supplements standard money and is redeemable in it. It is a promise to pay on the part of the government or some institution acting under authority of the government. Token money is small change or subsidiary money coined for the purpose of facilitating smaller exchanges. It may be legal tender in payments of certain amounts and its bullion value is usually less than its mint value. Governments sometimes issue what is called fiat money. This is money issued on the fiat of the government and the value of it rests on that authority and not on a coin or bullion backing. The right of a person to take metal to the mint and have it coined is called free coinage, which is distinguished from gratuitous coinage in that the latter is coinage without a charge made by government for coining. Seignorage is the amount of metal taken by the government before coining. It may be (a) brassage, just enough metal taken to meet the expense of coinage, or (b) the difference between the commercial value of low-priced bullion and the mint value of that bullion when coined, or (c) a charge in excess of that necessary to meet the expense of coinage. In 1873 when the silver dollar was demonetized, the free coinage of silver stopped, the seignorage on gold coinage became 1-5 of 1%, and later was entirely removed.

GRESHAM'S LAW.—The principle known as Gresham's Law states that where two kinds of legal money are in concurrent circulation the poorer or cheaper money tends to drive the better or dearer out. The driving out process will not begin as long as the amount of money, both heavy and light, or dear and cheap, is not in excess of the needs of exchange. When there is more money than is needed to do

the money work, then the excess which flows out will be the better money and the cheaper money will be left to make the exchanges. In 1792 the bimetallic standard was adopted by the United States Congress. The mint ratio of silver to gold was placed at 15 to 1, that is fifteen times as much silver was put in the standard silver dollar as gold in the standard gold dollar. At the same time, or very slightly later, the commercial ratio of silver to gold was 15.5 to 1, that is as bullion, 15.5 ounces of silver would exchange for one ounce of gold. Now, as silver money was legal tender, coined freely, and just as good as gold money as far as the United States was concerned, it became the cheaper money, and, according to Gresham's Law, which soon operated, one could, with an ounce of gold, purchase fifteen and one-half ounces of silver, have fifteen of them coined into silver coin as good as gold and make one-half an ounce at each operation. The result was that gold ceased to circulate and instead of the United States having a bimetallic standard, it really had the cheaper monometallic standard of silver. Coin may also go out of circulation when its bullion contents have more value than the legal value as coin. The coin will be sold for its bullion and goes into the commercial market.

MONOMETALLISM AND BIMETALLISM.—Nations have sought from olden days to keep a bimetallic standard with the result that for centuries there were alternating standards with differing mint and commercial ratios and consequent confusion. England adopted the gold standard in 1816, while the Continent was on a silver basis to the mid-Nineteenth Century, when gold began to replace silver. For this reason the Latin Union was formed and continued until 1873, when, through an increase of silver production and opposition of the gold standard in England, Scandinavia, and Germany, silver fell, and in 1878 the silver standard was practically abolished. Today the leading countries of the world have gold monometallism.

The arguments favoring gold monometallism are that: (1) The world has tried various standards and has found the monometallic gold standard most economical, stable and satisfactory. (2) Experience has shown that there cannot be two measures of value as there cannot be two yard sticks of varying lengths. (3) Experience has convinced the world that the double standard can never be maintained; indeed, it has been shown that it never existed for any length of time, but that its very adoption caused an alternating standard. (4) Mint ratios and commercial ratios cannot be kept at a parity by government fiat. (5) Gold is more stable in value; it represents a larger value in smaller bulk; its chemical and physical properties are far superior to those of any other metal. The arguments against gold monometallism are: (1) That it is possible for the supply of gold to be so controlled as to make for the further enrichment of the rich and the further impoverishment of the poor. (2) That there is not sufficient gold to meet the requirements of nations for such a standard. (3) That as population and production increase, demand for gold will increase and supply not being able to keep pace with such demand, gold will increase in value with the consequent decrease in prices.

Those favoring bimetallicism, the admission of two metals to free coinage at a fixed ratio and both legal tender, say that the mint ratio will be maintained because if one metal

tends to go below that ratio the whole money demand will fall upon the supply of that metal and cause it to go back to the ratio, while the other metal, which at the same time has gone above the ratio, will decline to it, and equilibrium will be maintained. Bimetallists further hold that a double standard would keep prices more stable, because a change in the demand for money would fall less heavily upon two metals than upon one; that there would exist a par of exchange between all nations, with a consequent added facility in exchange, to the betterment and increase of business; that the supply of the two metals would be sufficient to keep pace with the increasing money demands of increasing population and production; and that such supply has never been greater than the demand for it. Without discussing these arguments, attention is called to the fact that the arguments for a bimetallic standard are arguments for international bimetallic, and not for a double standard to be maintained by a single nation.

MONEY AND SUBSTITUTES.—The fact should be carefully noted that money and currency are not equivalent terms in the economic sense. Currency includes all forms of exchange media. Money is but one form of currency. We speak of coin, greenbacks and the like as money. But a large share of modern business is transacted through the intermediary not of money, but of substitutes for money—through different forms of circulating credit or through the bookkeeping devices of deposit banks and clearing houses. Checks, drafts and bills of exchange supply a large part of the currency demand. Even Clearing House balances are not always settled in money. In reality these credit substitutes are a part of our stock of currency as they have a well-defined utility for currency purposes. Not only have business men invented methods of convenience in doing business which in effect are creations of currency or credit money, but governments and banking institutions have made large issues of forms of money known as greenbacks, bank notes and the like. This credit money may be either paper or metallic money, but generally it is composed of paper.

Paper money may be such as that issued by institutions authorized by law to issue paper money, or it may be issued by government and have back of each unit of value a corresponding value in bullion or coin, or it may be issued by government with no coin or bullion back of it and forced to circulate by government decree. This is fiat money; inconvertible paper money. The backing may gradually become removed from that money which represents coin or bullion, and it will then become inconvertible paper money. The paper money of the United States during the American Revolution, and again the United States notes of the Civil War period, were examples of the issue of inconvertible paper, while the paper money of France at the time of the Franco-Prussian War became inconvertible in the second manner. The point is that paper money becomes inconvertible when coin or bullion cannot be obtained in return for it. This is so whether it bears on its face a promise to pay coin or bullion on demand or not.

The general reason for the issue of this kind of money is economy. It is expensive perhaps to purchase metal and coin it when money can be produced more cheaply from paper. Whether a money is economical or not depends on

the efficiency of its service. Now, on the basis of theory, an issue of inconvertible paper money which supplies the necessary money demand of a community and no more, would do the necessary work as readily as a like amount of coin, and would be more economical. But when it comes to money as a basis of credit, the supply of metallic money is limited by the supply of metal and the cost of production, while the law alone curbs the supply of paper money, and in this fact lies the danger of inconvertible paper money. The experience of the world has amply shown that it is not an economical money. Over-issue has been the rule, with the consequent depreciation in value, loss to creditors and discouragement to future industry. There is credit money of paper that is economical, stable and convenient. It is more economical than metallic money, has as much stability of value, and is more convenient. This we call convertible paper money and the basis of its stability is found in its unconditional convertibility into coin on demand. It is economical because it is not necessary for every dollar of paper money to be backed by a dollar in gold coin, but such paper money may have behind it a third or even a quarter of its face value in gold. As long as there is behind it a sufficient amount of coin to retain confidence that the paper can be and will be redeemed on presentation, so long will it serve its purpose.

BANK NOTES.—In the popular mind bank notes and paper money are nearly synonymous. Both are convenient. Both are promises to pay; the one by government, the other by a corporation. There are differences between the two, however, and in the minds of some, the bank note is superior to paper money, because it is convertible, whereas paper money may not be. The bank note must be converted on demand or the institution issuing jeopardizes its existence. Government promises to pay, but if it cannot pay on demand it can still force the circulation of its paper money. Government may issue paper money as long as there is necessity for it to meet government expenses. Bank note issues depend on the state of trade, and should be issued only in such quantities as may be needed to most efficiently serve the needs of trade. There are different principles of backing the issues of bank notes and other forms of credit money. In the United States, under the principle of bond-security, bank issues are secured by the deposit of bonds of high grade, government or other bonds, equal in value to any issue of notes. This is commonly called the currency principle. The banking principle holds that credit money for which is provided every facility for redemption, which is actually redeemed without question on presentation, and if there is any question of redemption by banks, then the law applies to such refusal at once, is a credit money as good as metallic money and more economical. Such issues are secured only by the general assets of the bank although a reserve of actual gold or specie is required by most governments to insure redemption and to prevent undue expansion. Under the Federal Reserve Act bank notes under both principles are put in circulation.

United States Coins and Currency

The monetary history of the United States may be summed up as an attempt to maintain a bimetallic standard down to the Civil War, when the standard became practi-

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VALUE OF FOREIGN COINS PROCLAIMED BY THE UNITED STATES TREASURY DEPARTMENT

COUNTRY.	Legal standard.	Monetary unit.	Value in terms of U. S. money.	Remarks*
Argentine Republic	Gold	Peso	\$0.965	Currency: Depreciated paper, convertible at 44 per cent of face value.
Austria-Hungary	Gold	Crown	.203	
Belgium	Gold and silver	Franc	.193	Member of Latin Union; gold is the actual standard.
Bolivia	Gold	Boliviano	.389	12½ bolivianos equal 1 pound sterling.
Brazil	Gold	Milreis	.546	Currency: Government paper, convertible at \$0.3244 to the milreis.
British Colonies in Australasia and Africa.	Gold	Pound sterling	4.8665	
Canada	Gold	Dollar	1.000	
Central Amer. States:				
Costa Rica	Gold	Colon	.465	
British Honduras	Gold	Dollar	1.000	
Guatemala	Silver	Peso	.462	Guatemala: Currency, inconvertible paper, exchange rate 16 to 18 pesos=\$1.00.
Honduras				Honduras: Currency, bank notes, exchange rate March 20, 1912, \$0.415.
Nicaragua				Nicaragua: Currency, inconvertible paper, exchange rate 16½ to 17 pesos=\$1.00.
Salvador				Salvador: Currency, convertible into silver on demand.
Chile	Gold	Peso	.365	Currency: Inconvertible paper; exchange rate, approximately, \$0.2230.
China	Silver	Amoy	.258	
		Canton	.256	
		Chefoo	.225	
		Chin Kiang	.240	
		Fuchau	.201	
		Hankow	.271	
		(Customs)	.271	
		Hankow	.209	
		Kiaochow	.234	
		Nankin	.250	
		Niuchwang	.211	
		Ningpo	.228	
		Peking	.239	
		Shanghai	.292	
		Swatow	.200	
		Takau	.262	
		Tientsin	.234	
		Dollar Yuan	.552	
		(Hongkong)	.498	
		Dollar British	.498	
		(Mexican)	.502	
Colombia	Gold	Dollar	1.000	Currency: Inconvertible paper; exchange rate, approximately, \$102 paper to \$1 gold.
Denmark	Gold	Crown	.268	
Ecuador	Gold	Sucre	.487	
Egypt	Gold	Pound (100 piasters)	4.943	The actual standard is the British pound sterling, which is legal tender for 97½ piasters.
Finland	Gold	Mark	.193	
France	Gold and silver	Franc	.193	Member of Latin Union; gold is the actual standard.
German Empire	Gold	Mark	.238	
Great Britain	Gold	Pound sterling	4.8665	
Greece	Gold and silver	Drachma	.193	Member of Latin Union; gold is the actual standard.
Haiti	Gold	Gourde	.965	Currency: Inconvertible paper; exchange rate, approximately, \$0.2941.
India [British]	Gold	Rupee	32441-3	(15 rupees equal 1 pound sterling.)
Italy	Gold and silver	Lira	.193	Member of Latin Union; gold is the actual standard.
Japan	Gold	Yen	.498	
Liberia	Gold	Dollar	1.000	Currency: Depreciated silver token coins. Customs duties are collected in gold.
Mexico	Gold	Peso	.498	
Netherlands	Gold	Florin	.402	
Newfoundland	Gold	Dollar	1.014	
Norway	Gold	Crown	.268	
Panama	Gold	Balboa	1.000	
Persia	Gold and silver	Kran	.1704	This is the value of the gold kran. Currency is silver circulating above its metallic value; exchange value of silver kran, approximately, \$0.0865.
Peru	Gold	Libra	4.8665	
Philippine Islands	Gold	Peso	.500	
Portugal	Gold	Milreis	1.080	Currency: Inconvertible paper; exchange rate, approximately, \$0.9860.
Roumania	Gold	Leu	.193	
Russia	Gold	Ruble	.515	
Santa Domingo	Gold	Dollar	1.000	
Servia	Gold	Dinar	.193	
Siam	Gold	Tical	.3708	
Spain	Gold and silver	Peseta	.193	Valuation is for the gold peseta; currency is silver circulating above its metallic value; exchange value, approximately, \$0.1794.
Straits Settlements	Gold	Dollar	.5677	
Sweden	Gold	Crown	.268	
Switzerland	Gold	Franc	.193	Member of Latin Union; gold is the actual standard.
Turkey	Gold	Piaster	.044	100 piasters equal to the Turkish £.
Uruguay	Gold	Peso	1.034	
Venezuela	Gold	Bolivar	.193	

* The exchange rates shown under this heading are recent quotations and given as an indication of the values of currencies which are fluctuating in their relation to the legal standard.

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cally paper; after the Civil War a gradual approach to the resumption of specie payments; from that time (1878-79) a struggle for the bimetallic standard to 1900, when gold monometallism was definitely adopted. United States money, while more varied than that of other nations, has gold for its standard, and the government maintains the policy of redeeming all other forms of money in gold; thus it keeps these forms at a parity with gold. It keeps coin value and value of bullion in the coin at a parity, as in gold, through free coinage and the melting pot. The money of the United States is of more kinds than that of any other nation. It is composed of gold, both in coin and bars, of standard silver dollars, of token money composed of silver and copper, of United States notes or "greenbacks," Treasury notes, National Bank notes, and besides these gold and silver certificates, which are representatives of the gold and silver before mentioned. The following description of United States coins and currency is condensed from government publications:

In 1785 the Congress of the Confederation chose as the monetary unit of the United States the dollar of 375.64 grains of pure silver. This unit had its origin in the Spanish piaster or milled dollar, which constituted the basis of the metallic circulation of the English colonies in America. It was never coined, there being at that time no mint in the United States.

The act of April 2, 1792, established the first monetary system of the United States. The bases of the system were: The gold dollar or unit, containing 24.75 grains of pure gold, and stamped in pieces of \$10, \$5, and \$2½, denominated, respectively, eagles, half eagles, and quarter eagles; the silver dollar or unit, containing 371.25 grains of pure silver. A mint was established. The coinage was unlimited, and there was no mint charge. The ratio of gold to silver in coinage was 1 to 15. Both gold and silver were legal tender. The standard was double.

The act of 1792 undervalued gold, which was therefore exported. The act of June 28, 1834, was passed to remedy this, by changing the mint ratio between the metals to 1 to 16.002. This latter act fixed the weight of the gold dollar at 25.8 grains, but lowered the fineness from 0.916⅔ to 0.899225. The fine weight of the gold dollar was thus reduced to 23.2 grains. The act of 1834 undervalued silver, as that of 1792 had undervalued gold, and silver was attracted to Europe by the more favorable ratio of 1 to 15½. The act of January 18, 1837, was passed to make the fineness of the gold and silver coins uniform. The legal weight of the gold dollar was fixed at 25.8 grains and its fine weight at 23.22 grains. The fineness was therefore changed by this act to 0.900 and the ratio to 1 to 15.988+.

Silver continued to be exported. The act of February 21, 1853, reduced the weight of the silver coins of a denomination less than \$1, which the acts of 1792 and 1837 had made exactly proportional to the weight of the silver dollar, and provided that they should be legal tender to the amount of only \$5. Under the acts of 1792 and 1837 they had been full legal tender. By the act of 1853 the legal weight of the half dollar was reduced to 192 grains and that of the other fractions of a dollar in proportion. The coinage of the fractional parts of the dollar was reserved to the Government.

The act of February 12, 1873, provided that the unit of value of the United States should be the gold dollar of the standard weight of 25.8 grains, and that there should be coined, besides, the following gold coins: A quarter eagle, or 2½-dollar piece; a 3-dollar piece; a half eagle, or 5-dollar piece; an eagle, or 10-dollar piece, and a double eagle, or 20-dollar piece, all of a standard weight proportional to that of the dollar piece. These coins were made legal tender in all payments at their nominal value when not below the standard weight and limit of tolerance provided in the act for the single piece, and when reduced in weight they should be legal tender at a valuation in proportion to their actual weight. The silver coins provided for by the act were a trade dollar; a

half dollar, or 50-cent piece; a quarter dollar, and a 10-cent piece; the weight of the trade dollar to be 420 grains troy; the half dollar, 12¼ grams; the quarter dollar and the dime, respectively, one-half and one-fifth of the weight of the half dollar. These silver coins were made legal tender at their nominal value for any amount not exceeding \$5 in any one payment. The charge for converting standard gold bullion into coin was fixed at one-fifth of 1 per cent. Owners of silver bullion were allowed to deposit it at any mint of the United States, to be formed into bars or into trade dollars, and no deposit of silver for other coinage was to be received.

Section 2 of the joint resolution of July 22, 1876, recited that the trade dollar should not thereafter be legal-tender, and that the Secretary of the Treasury should be authorized to limit the coinage of the same to an amount sufficient to meet the export demand for it. The act of February 19, 1887, retired the trade dollar and prohibited its coinage; that of September 26, 1890, discontinued the coinage of the 1-dollar and 3-dollar gold pieces.

The act of February 28, 1878, directed the coinage of silver dollars of the weight of 412½ grains troy, of standard silver, as provided in the act of January 18, 1837, and that such coins, with all standard silver dollars theretofore coined, should be legal tender at their nominal value for all debts and dues, public and private, except where otherwise expressly stipulated in the contract.

The Secretary of the Treasury was authorized and directed by the first section of the act to purchase from time to time silver bullion at the market price thereof, not less than \$2,000,000 worth nor more than \$4,000,000 worth per month, and to cause the same to be coined monthly, as fast as purchased, into such dollars. A subsequent act, that of July 14, 1890, enacted that the Secretary of the Treasury should purchase silver bullion to the aggregate amount of 4,500,000 ounces, or so much thereof as might be offered, each month, at the market price thereof, not exceeding \$1 for 371.25 grains of pure silver, and to issue in payment thereof Treasury notes of the United States, such notes to be redeemable by the Government, on demand, in coin, and to be legal tender in payment of all debts, public and private, except where otherwise expressly stipulated in the contract. The act directed the Secretary of the Treasury to coin each month 2,000,000 ounces of the silver bullion purchased under the provisions of the act into standard silver dollars until the 1st day of July, 1891, and thereafter as much as might be necessary to provide for the redemption of the Treasury notes issued under the act. The purchasing clause of the act of July 14, 1890, was repealed by the act of Nov. 1, 1893.

The act of June 9, 1879, made the subsidiary silver coins of the United States legal tender to the amount of \$10. The minor coins are legal tender to the amount of 25 cents. The act of March 14, 1900, declares that the dollar consisting of 25.8 grains of gold .900 fine "shall be the standard unit of value," and makes it the duty of the Secretary of the Treasury to maintain at a parity of value with this standard all forms of money issued or coined by the United States.

Standard bullion contains 900 parts of pure gold or pure silver and 100 parts of copper alloy. The coining value of an ounce of pure gold is \$20.67183 and the coining value of an ounce of standard gold is \$18.60465. The coining value in standard silver dollars of an ounce of pure silver is \$1.2929 and the coining value of an ounce of standard silver is \$1.1636. The weight of \$1,000 in United States gold coin is 53.75 troy ounces, equivalent to 3.68 pounds avoirdupois. The weight of \$1,000 in standard silver dollars is 859.375 troy ounces, equivalent to 58.92 pounds avoirdupois, and the weight of \$1,000 in subsidiary silver is 803.75 troy ounces, equivalent to 55.11 pounds avoirdupois.

LEGAL-TENDER QUALITIES OF UNITED STATES MONEY.—There are eleven different kinds of money in circulation in the United States, namely, gold coins, standard silver dollars, subsidiary silver, gold certificates, silver certificates, Treasury notes issued under the act of July 14, 1890, United States notes (also called greenbacks and legal tenders), national-bank notes, Federal Reserve Notes, and nickel and bronze coins. These forms of money are all available as circulation. While they do not all possess the full legal-tender quality, each kind has such attributes as

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to give it currency. Gold coin is legal tender at its nominal or face value for all debts, public and private, when not below the standard weight and limit of tolerance prescribed by law; and when below such standard and limit of tolerance it is legal tender in proportion to its weight. Standard silver dollars are legal tender at their nominal or face value in payment of all debts, public and private, without regard to the amount, except where otherwise expressly stipulated in the contract. Subsidiary silver is legal tender for amounts not exceeding \$10 in any one payment. Treasury notes of the act of July 14, 1890, are legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract. United States notes are legal tender for all debts, public and private, except duties on imports and interest on the public debt. United States notes, upon resumption of specie payments, January 1, 1879, became acceptable in payment of duties on imports and have been freely received on that account since the above date, but the law has not been changed. Gold certificates, silver certificates, and national-bank notes are not legal tender, but both classes of certificates are receivable for all public dues, while national-bank notes are receivable for all public dues except duties on imports, and may be paid out by the Government for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt and in redemption of the national currency. All national banks are required by law to receive the notes of other national banks at par. The minor coins of nickel and copper are legal tender to the extent of 25 cents. Foreign coins are not legal tender.

GOLD COINS.—While the gold dollar is the unit and standard of value, the actual coinage of the \$1 piece was discontinued under authority of the act of September 26, 1890. Gold is now coined in denominations of \$2.50, \$5, \$10, and \$20, called, respectively, quarter eagles, half eagles, eagles, and double eagles. The total coinage of gold by the mints of the United States from 1792 to June 30, 1910, is \$3,149,207,670.50, of which it is estimated that \$1,531,074,997 is now in existence as coin in the United States, while the remainder, \$1,618,132,673.50, represents the excess of exports over imports and the amount consumed in the arts. The gold bullion now in the United States is about \$105,000,000.

SILVER COINS.—The standard silver dollar was first authorized by the act of April 2, 1792. Its weight was 416 grains .8924 fine. It contained the same quantity of fine silver as the present dollar, whose weight and fineness were established by the act of January 18, 1837. The coinage of the standard silver dollar was discontinued by the act of February 12, 1873, and it was restored by the act of February 28, 1878. The total amount coined from 1792 to 1873 was \$8,031,238, and the amount coined from 1878 to December 31, 1904, when the coinage was discontinued, was \$570,272,610. The coinage ratio between gold and silver under the act of 1792 was 15 to 1, but by the acts of 1834 and 1837 it was changed first to 16.002 to 1 and finally to 15.988 to 1 (commonly called 16 to 1). This is the present ratio.

TRADE DOLLARS.—The trade dollar of 420 grains troy was authorized by the act of February 12, 1873. It was intended for circulation in oriental countries as a substitute for the Mexican dollar, which it slightly exceeded in weight; but by the terms of the authorizing act it was made legal tender in the United States in sums not exceeding \$5. This legal-tender quality was withdrawn by the joint resolution approved July 22, 1876, and the coinage was limited to such amount as the Secretary of the Treasury should consider sufficient to meet the export demand. The act of February 19, 1887, provided for the retirement of trade dollars and their recoinage into standard silver dollars or subsidiary silver.

SUBSIDIARY SILVER.—The silver coins of smaller denominations than one dollar, authorized by the act of April 2, 1792, were half dollars, quarter dollars, dimes, and half dimes. They were the equivalent in value of the fractional parts of a dollar which they represented—that is, two half dollars were equal in weight to one silver dollar, and so on. These coins were full legal tender when of standard weight, and those of less than full weight were legal tender at values proportional to their respective weights. By the act of February 21, 1853, the weight of the fractional silver

coins was reduced so that the half dollar weighed only 192 grains, and all the smaller denominations were reduced in proportion. Their legal-tender quality was at the same time limited to \$5, and they thus became subsidiary coins. The present subsidiary coins are half dollars, quarter dollars, and dimes. Their weight is slightly different from that prescribed by the act of 1853; but the limit of their legal-tender quality has been raised to \$10.

PAPER MONEY.—The first paper money ever issued by the Government of the United States was authorized by the acts of July 17 and August 5, 1861. The notes issued were called "demand notes," because they were payable on demand at certain designated subtreasuries. They were receivable for all public dues, and the Secretary was authorized to reissue them when received, but the time within which such reissues might be made was limited to December 31, 1862. The amount authorized by these acts was \$50,000,000. An additional issue of \$10,000,000 was authorized by the act of February 12, 1862, and there were reissues amounting to \$30,000. The demand notes were paid in gold when presented for redemption and they were received for all public dues, and these two qualities prevented their depreciation. All other United States notes were depreciated in value from 1862 until the resumption of specie payments. The act of February 25, 1862, provided for the substitution of United States notes in place of the demand notes, and the latter were therefore canceled when received. By July 1, 1863, all except about \$3,350,000 had been retired, and nearly three millions of this small remainder were canceled during the next fiscal year. These notes were not legal tender when first issued, but they were afterwards made so by the act of March 17, 1862.

UNITED STATES NOTES.—The principal issue of United States paper money was officially called United States notes. These were the well-known "greenbacks" or "legal tenders." The act of February 25, 1862, authorized the issue of \$150,000,000, of which \$50,000,000 were in lieu of an equal amount of demand notes, and could be issued only as the demand notes were canceled. A second issue of \$150,000,000 was authorized by the act of July 11, 1862, of which, however, \$50,000,000 was to be a temporary issue for the redemption of a debt known as the temporary loan. A third issue of \$150,000,000 was authorized by the act of March 3, 1863. The total amount authorized, including the temporary issue, was \$450,000,000, and the highest amount outstanding at any time was \$449,338,902 on January 30, 1864. There are still outstanding \$346,681,016. The reduction from the original permanent issue of \$400,000,000 to \$346,681,016 was caused as follows: The act of April 12, 1866, provided that United States notes might be retired to the extent of \$10,000,000 during the ensuing six months, and that thereafter they might be retired at the rate of not more than \$4,000,000 per month. This authority remained in force until it was suspended by the act of February 4, 1868. The authorized amount of reduction during this period was about \$70,000,000, but the actual reduction was only about \$44,000,000. No change was made in the volume of United States notes outstanding until after the panic of 1873, when, in response to popular demand, the Government reissued \$26,000,000 of the canceled notes. This brought the amount outstanding to \$382,000,000, and it so remained until the resumption act of January 14, 1875, provided for its reduction to \$300,000,000. The process was, however, again stopped by the act of May 31, 1878, which required the notes to be reissued when redeemed. At that time the amount outstanding was \$346,681,016, which is the present amount. The amount of United States notes redeemed from the fund raised for resumption purposes since January 1, 1879, to June 30, 1910, was \$712,260,694; but the volume outstanding is undiminished because of the provisions of the act of May 31, 1878, which require the notes so redeemed to be paid out again and kept in circulation. The act of March 14, 1900, also directed the reissue of United States notes when redeemed, but they must first be exchanged for gold as provided in the said act. The act also provides that when silver certificates of large denominations are canceled, and small denominations issued in their place, a like volume of small United States notes shall from time to time be canceled and notes of \$10 and upward issued in substitution therefor. The act of March 4, 1907, provides for the issue, under certain conditions, of United States notes in denominations

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of \$1, \$2, and \$5, and upon such issue an equal amount of United States notes of higher denominations shall be retired and canceled.

GOLD CERTIFICATES.—The act of March 3, 1863, authorized the Secretary of the Treasury to receive deposits of gold coin and bullion in sums not less than \$20, and to issue certificates therefor in denominations not less than \$20, said certificates to be receivable for duties on imports. Under this act deposits of gold were received and certificates issued until January 1, 1879, when the practice was discontinued by order of the Secretary of the Treasury. The purpose of the order was to prevent the holders of United States notes from presenting them for redemption in gold, and redepositing the gold in exchange for gold certificates. No certificates were issued after January 1, 1879, until the passage of the bank act of July 12, 1882, which authorized and directed the Secretary of the Treasury to receive gold coin and issue certificates. This act, however, provided that "the Secretary of the Treasury shall suspend the issue of gold certificates whenever the amount of gold coin and gold bullion in the Treasury, reserved for the redemption of United States notes, falls below one hundred millions of dollars." The act of March 14, 1900, reenacted this provision, and further provided that the Secretary may, in his discretion, suspend such issue whenever and so long as the aggregate amount of United States notes and silver certificates in the general fund of the Treasury shall exceed \$60,000,000. It provided further that of the amount of such certificates outstanding one-fourth, at least, shall be in denominations of \$50 or less. The act of July 12, 1882, made them receivable for customs, taxes, and all public dues. The act of March 4, 1907, provides for the receipt of deposits of gold coin in sums of not less than \$20 and the issue of gold certificates therefor in denominations of not less than \$10.

SILVER CERTIFICATES.—The act of February 28, 1878, authorizing the issue of the standard silver dollars, provided that any holder of such dollars might deposit them in sums not less than \$10 with the Treasurer or any assistant treasurer of the United States and receive certificates therefor, in denominations not less than \$10, said certificates to be receivable for customs, taxes, and all public dues. The act of August 4, 1886, authorized the issue of the smaller denominations of \$1, \$2, and \$5. Silver certificates have practically taken the place in circulation of the standard silver dollars which they are coined to represent. The act of March 14, 1900, provided that thereafter the issue of silver certificates should be limited to the denominations of \$10 and under, except that 10 per cent of the total volume of such certificates, in the discretion of the Secretary of the Treasury, may be issued in denominations of \$20, \$50, and \$100.

TREASURY NOTES, ACT OF JULY 14, 1890.—These notes were authorized by the act of July 14, 1890, commonly called the "Sherman Act." The Secretary of the Treasury was directed to purchase each month 4,500,000 ounces of fine silver at the market price, and to pay for the same with Treasury notes redeemable on demand in coin and legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract. It was provided in the act that when the notes should be redeemed or received for dues they might be reissued, but that no greater or less amount of such notes should be "outstanding at any time than the cost of the silver bullion and the standard silver dollars coined therefrom, then held in the Treasury purchased by such notes." The authority for the purchase of silver bullion under this act was repealed by the act of November 1, 1893, up to which date the Government had purchased 163,674,682.53 fine ounces, at a cost of \$155,931,002, for which Treasury notes were issued. The amount of Treasury notes redeemed in gold up to the close of the fiscal year 1910 was \$110,582,179 and the amount redeemed in standard silver dollars was \$84,556,867. Treasury notes redeemed in standard silver dollars are canceled and retired in accordance with the requirements of the act of 1890. Sections 5 and 8 of the act of March 14, 1900, also provide for the cancellation and retirement of Treasury notes to an amount equal to the coinage of standard silver dollars and subsidiary silver from the bullion purchased with such notes.

FRACTIONAL CURRENCY.—When specie payments were

suspended, about January 1, 1862, both gold and silver coins disappeared from circulation. The place of the subsidiary silver coins was for a time supplied by the use of tickets, duebills, and other forms of private obligations, which were issued by merchants, manufacturers, and others whose business required them to "make change." Congress soon interfered, and authorized, first, the use of postage stamps for change; second, a modified form of postage stamp called postal currency, and finally, fractional paper currency in denominations corresponding to the subsidiary silver coins. The highest amount authorized was \$50,000,000. The highest amount outstanding at any time was \$49,102,660.27, and the amount still outstanding, though not in use as money, is \$15,234,756.28, of which \$8,375,934 is officially estimated to have been destroyed. Much has been kept as relics.

Bank Evolution

Established principles and practices of banking embody the crystallized experience of centuries. Discoveries in ancient Babylon indicate that banking flourished in the Assyrian empire at least six centuries before Christ. In Athens there existed a class of people who discounted bills, but history does not show that they performed any other functions of banking. The Romans were the first real bankers. They introduced the system of giving credits to depositors and allowing transfers by checks. When Rome became politically the mistress of the world her business naturally grew, and the financial interests of her outlying dependencies were directed to a large extent from the center. Banking, therefore, expanded from money changing to receipt of deposits, to loans of deposits, to transfers of money by means of orders. A body of law of trade and banking arose and was a part of the fundamental law of the state. Yet this system of banking did not long survive the downfall of Rome. As banking grew with the growth of commerce, so when commerce was broken up during the mediæval period by wars of conquest, the formation of petty states, the attempts to unite them into larger states, and with all the consequent insecurity of property, banking died for many centuries in western Europe.

When this period of anarchy was drawing to a close and metal which had been in hiding began to be coined, it was coined by many petty rulers. Then again, money changers did a profitable business, because of the unlike money circulating. The business of the money changers grew to be of such importance to communities that laws were promulgated regulating them with penalties for debasement, theft and counterfeiting. Jews were the bankers of Europe and were bitterly fought by the Lombards, when the Italian cities became the centers of trade. From these cities commerce had its outflowings to the rest of Europe. In the Fifteenth Century the Medici family were great bankers in Italy, as well as rulers of Florence. Lorenzo di Medici, looked upon as a great patron of art and letters, was equally a factor in trade and banking. From the Thirteenth Century into the Sixteenth Century banking in Venice was regulated by government and remained as a business of individuals until the last quarter of the Sixteenth Century. These old banks loaned both their own capital and their deposits, but for some time loans made to those who had not deposited money were looked upon with disfavor. As the business developed loans began to be made without full cash security and in a sense the banks so loaning, both to governments

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and individuals, were performing functions of banks of issue, not by bank notes, but by instruments of bank credit which circulated. When commerce fell away from the Italian cities, due to the changes of routes of eastern trade, there arose banks in northern and western Europe, necessary to the great trade which sprang up in that section of the world. Conspicuous among such institutions are the Bank of Amsterdam, the Bank of England, the Bank of France and the Bank of Germany.

BANK OF AMSTERDAM.—In Holland, where international trade brought all sorts of money from different districts and countries, the Bank of Amsterdam acted as a place of deposit for merchants, guaranteeing to them the same weight of silver, that is, the same value as they deposited. Thus a claim of this bank was always worth more than current money. The bank kept its accounts in ideal money. Adam Smith said that before 1609 the mass of clipped and worn foreign coin brought from all parts of Europe caused the value of currency to fall 9% below that of good money fresh from the mint. Therefore, following Gresham's Law, this new money, when it came out, was melted down and taken away. This resulted in a handicap to industry, as merchants found it increasingly difficult to get sufficient good money to pay their bills of exchange. Thus these bills became more or less uncertain in value. To remedy this situation the Bank of Amsterdam, under the authorization and guarantee of the City of Amsterdam, received this worn, clipped and light foreign coin at its intrinsic value, measured by standard money, making a seignorage charge just sufficient to pay for the service rendered and for the actual expense of coinage. For the net value remaining the bank gave credit on its books in what was called bank money, which always had the same value, as it was based upon the standard money of the mint. Bills of exchange drawn upon this bank, or negotiated therein, were certain in their value, as it was provided that "all bills drawn upon or negotiated at the Bank of Amsterdam of the value of 60 guilders or upwards, should be paid in bank money."

BANK OF ENGLAND.—William and Mary ascended the throne of England as a result of the English Revolution of 1688. At this time Louis XIV of France was seeking to extend his power and sway over Europe, and William, his old enemy, carried England against him. At the same time the trade of England was growing and banking in private hands was springing up, and the credit of these banks was circulating. As England needed money in order to prosecute the war against France, it was proposed that a loan be offered for subscription and that those subscribing should receive privileges of incorporation and banking. This bill passed and by the "Act of 1694" 1,200,000 pounds at eight per cent. interest was loaned to the government, and the subscribers were incorporated as "The Governor and Company of the Bank of England," the title which it still retains. Its charter gave it the power to deal in money and exchange, but forbade it to enter into trade or to borrow beyond its capital. Indeed, the charter so limited the functions of this bank as to give promise of no large power to the incorporators. In 1697 the government, needing more assistance, extended the charter, and authorized the bank to issue demand notes, payable to bearer, in return for a new loan and equal in amount to the loan. The government interest was made six instead of eight per cent. At the same time this corporation was given a monopoly, because by the Act of 1697 no other corporation of like nature, that is, a bank or corporation doing banking, could be erected as long as the charter of the Bank of England existed. By a later act Parliament decreed that no other corporation or partnership of more than six persons should have the right to issue demand notes in England. Therefore, the power of issuing notes given to the Bank of England did not stand in the way of partnerships of six persons or less issuing demand notes, and companies and private bankers did issue such notes. The bank acted as agent of the treasury and was the depository of public funds. From time to time the charter was renewed, either on consideration of a new loan, or

because of reductions of the interest rates on old loans. Indeed, by the middle of the Eighteenth Century the interest rate had been reduced to three per cent. and subsequent demands on the bank reduced this further. Between 1797 and 1821 specie payments were suspended by order of Parliament, because it was thought that England would be drained of its gold. Thus at this time the notes of the bank became inconvertible paper money. The issue of notes had been backed by the assets of the bank; that is, the banking principle prevailed. When these notes became inconvertible paper, an argument arose as to whether the notes had depreciated and forced gold to a premium, or whether, because of European demand, gold had increased in value. Those who favored the banking principle held that gold had appreciated because of demand and that the notes had not depreciated, while those who favored the currency principle held that excessive note issue had caused the outflow of gold. This argument, added to the fact that the issues of country banks and of the bank itself had increased rapidly between 1800 and 1810, and that the Bullion Report made by an investigating commission of Parliament, charged the gold outflow to the excessive note issue, led to the resumption of specie payments and later to the reorganization of note issues. England was growing rapidly in industry and demands increased for better banking. To these demands the Bank of England responded very slowly, especially in establishing branches. The result was that private banks sprang up to meet the demand and unsound banking prevailed. This led in 1826 to an act giving to companies of more than six persons the right of issue when erected at more than sixty-five miles from London. Thus a number of joint-stock banks of issue arose outside of the prescribed limit and unsound banking resulted. This, in turn, led to the Act of 1844, known as "Peel's Act," reorganizing the Bank of England, in order to secure its issues and to limit the issues of other banks. This Act regulates the issue of bank notes in England and Wales at the present time.

The Bank of England is divided into two departments, the Banking Department and the Issue Department. The first carries on the business of deposit and discount and the second issues and redeems all notes. These divisions were made independent of each other by the Act of 1844. The sum of 14,000,000 pounds sterling of securities, including the government debt, was transferred to the Issue Department, which, in turn, transferred 14,000,000 pounds sterling of notes to the Banking Department. The amount of securities to be held by the Issue Department was limited by the Act to this sum and, therefore, all notes in excess of this amount could issue only in exchange for precious metals. The Banking Department carries on a deposit and discount business as does any bank. It must meet its obligations in cash and must maintain a reserve, which may be of specie or of notes from the Issue Department. If gold is demanded, it must pay in gold, but otherwise it may pay in notes. If it has to pay out more notes than come in by deposit or through other channels, it must take gold or securities to the Issue Department and exchange them for an equal amount in notes. Indeed, a note of the Bank of England is practically a certificate representing so much gold, because the circulation of the notes of this bank is less than 18,000,000 pounds, against which is held the 14,000,000 pounds, the basis of issue. Thus the Act of 1844, in seeking to provide for the security of these notes, would seem to have effected its purpose. But the Act of 1844 had likewise in view the limitation of issues of joint-stock and private banks. It carried this out by stating that these banks should not increase their issues beyond the average existing for some time prior to the Act, and that the privilege of issue should not be conferred further. If such a bank should cease to issue, then, by legal consent, the Bank of England could issue up to two-thirds of the amount so withdrawn by adding an equivalent sum to the government securities in the Issue Department. Thus it was hoped ultimately to reduce the banks issuing, and to place this power wholly in the Bank of England. In this way the original issue of 14,000,000 pounds has increased to about 18,000,000 pounds.

The Bank of England is surrounded by banks doing all together a business far greater than it does. This banking system

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is far wider than its own environment and country, for through it passes the great banking business of international trade. Thus, as this business rises and falls, sometime subject to sharp movements, the demands on the banking system must fluctuate and must affect, now lightly and lowly, now heavily and suddenly, the reserves of these banks. These reserves are, however, kept on deposit with the Bank of England, which is the central reserve bank of the kingdom, the bank of banks.

BANK OF FRANCE.—The Bank of France is one of discount, deposit, and issue. Its liabilities are all on the same basis, and it does not, therefore, surround its note issues with any special guards as do the banks of other countries. It grew out of a system, or lack of system, of banking, where for some time prior to 1796, during the French Revolution, the right of note issue was common property, and depended for its success solely upon getting the confidence of the public. As government became more orderly a bank arose in Paris and by 1800 some others had arisen in different parts of France. The Bank of France was founded in 1800 in Paris, when Napoleon was First Consul, and he was one of its stockholders. This bank did not differ from the others mentioned, although receiving some government deposits and favored by the government. In 1803 it was given the sole power of issuing notes in Paris with the consequent withdrawal of other note issues, and the merger of at least one other bank with it. Its minimum note was for 500 francs, but its circulation increased and the fact showed that the French people desired this form of credit. While the bank remained in private control, it became leagued more and more with governmental affairs, and in 1806 it was placed under government control, without, however, changing its form. Before this change the stockholders had chosen the board of directors or regents as it was termed. With the change a governor and two sub-governors were appointed by the head of the state. So has the Bank of France remained, its property legally owned as a private corporation, but subject to the control of the government. Its history has been affected by the rapidly changing history of France throughout the Nineteenth Century, but as the basic principles of French government have changed but little with the erection and overthrow of political forms, so the principles of the early bank remain. In 1817 independent banks of issue were provided for in France and their notes made legal tender as were those of the Bank of France. In 1848 these independent banks were made branches of the central bank and with it, therefore, rested the sole right of issue, while other banks arose as banks of deposit and discount, and still exist. The Bank of France now has a branch in every department. This exclusive power of issue has been renewed for periods of thirty years, the last renewal being granted in 1897 to expire in 1920; but it is made under certain conditions. The bank must grant to every one alike the same rate of discount and it can discount only such bills as bear three signatures and are drawn for not more than ninety days. In the matter of discount the bank charged up to 1854 a uniform rate of 4%. Since then the rate has been a varying one. It can pay no interest on deposits; its loans must be made on certain security or bullion; there can be no overdrafts; it must loan the government, without interest, 180,000,000 francs, besides 40,000,000 francs which it loans to agricultural credit associations. It cannot issue notes for more than 5,000,000,000 francs and it must share profits with the government on a plan which considers the rate of discount and notes issued.

Of the three functions, deposit, discount and issue, the most important is that of issue. In 1907, of all of its liabilities, amounting to over five and three-quarters billions of francs, four and three-quarters billions of francs were notes, and of its assets over three and one-half billions of francs were in coin and bullion. Its private deposit accounts in the same year, both in Paris and in its branches, amounted to less than five hundred millions of francs. In the field of discount it does very little discounting at first hand. Its work here lies in the rediscounting of paper which represents small trading, thus acting as an aid to small retail dealers throughout France. Its changes in discount rates have been much less than those of other countries, the uniformity of the rate arising from the fact of a large metallic reserve, from steadiness of

demand, as contrasted with the variable demand on the Bank of England, from the policy of maintaining its reserve by buying gold at a loss, if necessary, rather than to burden trade with a raise in the discount rate. In ordinary banking the Bank of France has many competitors with large capital. These banks do a large business on small cash reserves, for in time of need they can procure notes of the central bank for good securities and paper. Thus the Bank of France is a bank of banks; the credit of the country depends on its reserve. This bank regulates the supply of money by controlling its own circulation.

BANK OF GERMANY.—Without discussing the state of banking prior to the unification of Germany, and the work done for the unification of banking for the first four years of the Empire, we may say that by the law of March 14, 1875, this unification was completed and by the consent of Prussia its bank (Royal Bank of Prussia) surrendered its rights, for a consideration, to the Bank of the Empire (Reichsbank) on December 31, 1875. The Imperial Bank is privately owned and publicly managed. The Chancellor of the Empire and four members named by the Bundesrath (Federal Council) constitute a council of curators, the official controllers of the bank. Full power of directing the administration of the bank and its branches really lies with the Chancellor or his representative. The curators meet at stated times and examine the condition of the bank. A directorate, with a president, nominated for life by the Bundesrath and named by the Imperial government, has direct administration, and the employees of the bank have the same privileges and opportunities as do those belonging to any branch of the public service, but they cannot own shares of the bank. Private ownership has its influence on the affairs of the bank through a commission elected by the shareholders. This commission must examine the bank's reports monthly, must look into the state of its deposits and its relation to other German banks. It also may have much to do in the management, as long as it conforms to Imperial rules. The Imperial Bank was by law authorized to issue notes, as were thirty-two other banks throughout the Empire. However, the amount of issue of this bank is limited and against it cash or its equivalent to the amount of one-third, must be held. For all amounts issued above the limitation there must be full equivalent in cash. In the case of the two-thirds of the authorized issue not backed by cash the backing must be in bills of exchange drawn for not more than ninety days and bearing at least two solvent signatures.

Many limitations were by law placed upon the issues of other banks with the idea perhaps that they would ultimately cease issuing and make the Imperial Bank the only bank of issue. This idea was taken from the English Act of 1844, and if any other bank stops issuing, its amount of circulation may be taken up by the Imperial Bank. This bank is permitted to issue notes on its own responsibility, above the limit authorized by law, and without metal backing, on payment of a 5% tax on such excessive issue. Therefore, in times of stringency, when the rate of interest rises above 5%, the Imperial Bank can increase its circulation at a profit, and by the issue of such credit money, relieve the loan market. These bank notes are not legal tender, nor are the holders of notes given preference over other creditors. Each bank must accept at par the notes of every other bank and send them to the issuing bank at once for redemption. In these ways the tendency is for bank notes to circulate in amounts actually needed to meet the conditions of business. As in France, so in Germany, the Imperial Bank's discount function is, in the main, that of rediscount for the large commercial banks. It holds also to a large extent the reserve of these banks, and therefore has the metal upon which the credit of Germany must depend. It must guard this specie, and does so by a varying rate of discount, raising it to stop the outflow of metal or the extension of credit. The keeping of gold is not only from the motive of safe banking, but because of the possible need of specie in case of war. By the law of 1899 the capital of the Imperial Bank was made 180,000,000 marks authorized. Three and one-half per cent. of profits were to go to the surplus fund, sixty per cent. to the government, and twenty per cent. to the shareholders. After the surplus fund should be reached,

then seventy-five per cent. of the profits should go to the state and twenty-five per cent. to the shareholders.

Early American Banking

Robert Morris and Alexander Hamilton may be termed the "Fathers of Banking" in the United States. Morris, who was, perhaps, the greatest financier of the Revolutionary period, formed the plan for the first State bank. This bank was the Bank of North America, in the city of Philadelphia. The institution had its origin as a banking company without charter, in a meeting of citizens of Philadelphia on June 17, 1780, at which it was resolved to open a "security subscription to the amount of three hundred thousand pounds, Pennsylvania currency, in real money," the intention being to supply the army, at the time reported by Washington to be destitute of the common necessities of life and on the verge of mutiny. In the spring of 1780, Robert Morris, then holding the office of Superintendent of Finance under appointment of Congress, arranged the system of the Bank of North America. On the 26th day of May, 1781, Congress adopted a resolution approving the plan submitted by Mr. Morris, and promised it a cordial support, and on December 31st, following, it granted the bank a perpetual charter. The bank was opened for business on January 17, 1782. The Legislature of Pennsylvania granted the company an act of incorporation of perpetual duration on April 1, 1782, which was repealed in 1785, but the bank continued its business under the act of Congress. A change of parties in 1787 brought with it a renewal of the charter by the State of Pennsylvania, limited, however, to the term of fourteen years. The State charter of the bank was renewed from time to time until December 3, 1864, when it became a national bank, retaining its original name. The Massachusetts Bank received its charter from the Legislature on February 7, 1784. This was the first local bank established in that State, and the second in the United States. The Bank of New York began business in 1784, under articles of association drawn by Alexander Hamilton, who was a member of the first board of directors. This bank was chartered by the Legislature on March 21, 1791, and was the first bank in the State organized under legislative sanction and the third bank in the United States. On May 1, 1852, it was reorganized as a free bank, under the general laws of the State. On January 6, 1865, it became a national bank. In 1799 the Bank of New York was under the control of Federalists, and both branches of the Legislature were in the hands of that party. As it was not probable that any bank to be controlled by the opposition would be authorized, a bill was prepared, largely through the influence of Aaron Burr, authorizing a company with a capital amounting to \$2,000,000 to supply the City of New York with water, and providing that the surplus capital might be applied in the purchase of public or other stocks, "or in any other money transaction or operation not inconsistent with the laws and constitution of the United States or of the State of New York." The real purpose of the act was concealed, the majority of the Legislature not perceiving that the charter contained a grant for banking purposes, and the act which incorporated the Manhattan Company was passed under this misapprehension. Subsequent events of historic interest were the rise and fall of the

First and Second Banks of the United States. *When Comptroller of the Currency in 1876, John J. Knox, embodied in his official report the following description of these institutions:

FIRST BANK OF THE UNITED STATES.—The first Bank of the United States was proposed by Alexander Hamilton, Secretary of the Treasury, in his report on a national bank made December 13, 1790. In that report he acknowledges the essential service rendered by the Bank of North America, as a fiscal agent of the general Government, from the commencement of its operations, January 7, 1782, to the close of the revolutionary war, which bank at that time (1790) was operating under the charter obtained from the State of Pennsylvania in 1787. In an elaborate report, he gives at length his reasons for the necessity of the organization of the proposed bank, and disapproves of the proposition to issue United States notes. On this point he says: "The emitting of paper money by the authority of Government is wisely prohibited to the individual States by the National Constitution, and the spirit of that prohibition ought not to be disregarded by the Government of the United States. Though paper emissions, under a general authority, might have some advantages not applicable, and be free from some disadvantages which are applicable to the like emissions by the States separately, yet they are of a nature so liable to abuse, and, it may even be affirmed, so certain of being abused, that the wisdom of the Government will be shown in never trusting itself with the use of so seducing and dangerous an expedient."

The capital of the proposed bank was fixed at ten millions; and one-fourth of all the private and corporate subscriptions was to be paid in gold and silver, and three-fourths in United States stock bearing six per cent. interest. Two millions were to be subscribed by the United States, and paid in ten equal annual installments by loans from the bank, or, as Mr. Hamilton describes the operation, by "borrowing with one hand what is lent with the other." The board of directors of the bank was to consist of twenty-five persons, not more than three-fourths of them to be eligible for re-election in the next succeeding year. The bank had authority to loan on real estate security, but could only hold such real estate as was requisite for the erection of suitable banking-houses, or should be conveyed to it in satisfaction of mortgages or judgments. No stockholder, unless a citizen of the United States, could be a director, and the directors were to give their services without compensation. The bills and notes of the bank were made receivable in payment of all debts to the United States.

The act of incorporation was opposed in the House of Representatives by James Madison and eighteen others, all of whom, with one exception, were members from the States of Virginia, Maryland, and North and South Carolina. It was also opposed by Thomas Jefferson, Secretary of State, and Edmund Randolph, Attorney-General, in opinions requested by the President. The grounds taken by the opponents of the charter were, a denial of the general utility of banking systems, and opposition to the special provisions of the bill; but the main force of their objections was directed against the constitutional authority of Congress to pass an act for the incorporation of a national bank. The supporters of the bill in the House of Representatives numbered thirty-nine—a majority of twenty; all of them, except four, being representatives of Northern States, among whom were Fisher Ames, Elbridge Gerry and Theodore Sedgwick, of Massachusetts; Roger Sherman and Jonathan Trumbull, of Connecticut; Elias Boudinot, of New Jersey; and Peter Muhlenberg, of Pennsylvania. Hamilton, Secretary of the Treasury, and Knox, Secretary of War, in official opinions rendered to the President, maintained the constitutionality and the policy of the act.

Hamilton's plan, substantially unchanged, was adopted by Congress, and the act was approved by Washington on February 25, 1791. The average dividends of the bank, from its organization to March, 1809, were at the rate of 8½ per centum per annum. The 5,000 shares of four hundred dollars each, owned by the United States, were disposed of in the years 1796 to 1802, at a considerable profit, 2,220 shares having been sold in the last-mentioned

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year at a premium of 45 per cent. According to the Treasury records the Government subscription, with the addition of the interest which was paid by the United States on the stock issued for it, amounted to \$2,636,427.71, while there was received by the Treasury in dividends, and from the sale of the bank stock at various times, \$3,773,580, the profit realized by the Government being \$1,137,152.29, or nearly fifty-seven per cent. on the original investment.

The charter of the bank expired by limitation on the 4th of March, 1811, and application for its renewal was made in April, 1808. In 1810 the subject underwent investigation and discussion in Congress. Albert Gallatin, then Secretary of the Treasury, favored the renewal, with some minor changes. Of the conduct of the bank under its first charter he said: "The affairs of the bank, considered as a moneyed institution, have been wisely and skillfully managed." On the final vote in the Senate, on February 20, 1811, the parties stood 17 to 17, and the bill was defeated by the casting vote of the Vice-President, George Clinton. Mr. Clay voted against its passage, and Mr. Crawford and Mr. Pickering in its favor, the latter voting against instructions of the Massachusetts legislature. The legislatures of Pennsylvania and Virginia instructed their representatives to oppose the renewal of the charter on the ground of its unconstitutionality. The bill was lost in the House by a minority of one vote, as it had previously been in the Senate by the casting vote of the Vice-President.

The State banks, which the opponents of the recharter believed adequate to the fiscal requirements of the Government and to the monetary necessities of trade and industry, failed in the trial to which the exigencies of the war of 1812 subjected them. In September, 1814, all of them which were south of New England suspended specie payments. Nearly one hundred of them, in different sections of the country, had been, of necessity, in the absence of a national bank, selected as depositories of Government funds. The check of the redemption of their notes being removed, an expansion of their issues followed; its amount, which was estimated in 1811 at \$28,100,000, being in succeeding years, according to Mr. Crawford, as follows: In 1813, from \$62,000,000 to \$70,000,000; in 1815, from \$99,000,000 to \$110,000,000; and in 1819, from \$45,000,000 to \$53,000,000. During the year 1816 the banks continued to issue largely, and that, in addition to this, floods of unchartered currency were poured out, in notes of all denominations, from six cents upward. Great distress resulted to the country from the depreciation of the currency, and from the failures of banks in 1818, '19, and '20. The root of the evil lay in the attempt of the Government to carry on an expensive war by means of bank-loans, and the notes of State corporations over which it had no control, thereby converting an irredeemable paper, issued by irresponsible institutions, into a national currency, assisting in its circulation and encouraging its expansion. In 1814, Treasury funds to the amount of nearly nine millions of dollars were in the suspended banks; and the correspondence of Secretary Crawford with the deposit-banks, from January 1, 1817, to May 8, 1822, fills two volumes, comprising 1237 pages. The loans of the Government in 1815 amounted to \$35,220,671. Treasury notes were not redeemed, and distrust prevailed.

On October 6, 1814, Mr. Dallas was appointed Secretary of the Treasury, and on the 14th of the same month, in response to a communication from the Committee of Ways and Means, he transmitted a report strongly recommending the organization of a national bank. In that report he says: "The multiplication of State banks in the several States has so increased the quantity of paper currency that it would be difficult to calculate its amount, and still more difficult to ascertain its value. * * * There exists, at this time, no adequate circulating medium common to the citizens of the United States. The moneyed transactions of private life are at a stand, and the fiscal operations of the Government labor with extreme inconvenience. * * * Under favorable circumstances, and to a limited extent, an emission of treasury-notes would probably afford relief; but treasury-notes are an expensive and precarious substitute either for coin or bank-notes, charged as they are with a growing interest, productive of no countervailing profit or emolument, and exposed to every breath of popular prejudice or alarm. The establishment of a national institution, operat-

ing upon credit, combined with capital, and regulated by prudence and good faith, is, after all, the only efficient remedy for the disordered condition of our circulating medium. The establishment of a national bank will not only be useful in promoting the general welfare, but it is necessary and proper for carrying into execution some of the most important powers constitutionally vested in the Government."

At this time, in place of one United States bank acting as its fiscal agent, the Government accounts were distributed among a large number of State banks, scattered all over the Union. Such was the state of the public credit in 1813-'14, that in those two years \$42,269,776 of six per cent. stocks, issued by the Government, and running for twelve years, were sold at a discount of nearly fifteen per cent., the Government realizing from their sale but \$35,987,762. On February 24, 1815, a loan of \$8,856,960, running for nine years, but with interest increased to seven per cent., was negotiated at par; and on March 3, following, another loan of \$9,745,745, for nine months, at six per cent. interest, brought into the Treasury but \$9,284,044, the discount in this instance being nearly five per cent. In addition to these losses, the money received for the loans was at a heavy discount for specie—the depreciation in the local currency at the close of the war ranging to twenty and even twenty-five per cent., and the Government supplies being obtained only at a proportionate rise in price. Such were some of the results of a State-bank system during the period that followed the expiration of the charter of the bank on March 4, 1811, and until its re-establishment on January 7, 1817.

The effect of this experience was to revolutionize the opinions of Congress, inasmuch that on January 20, 1815, and in accordance with the recommendation of Secretary Dallas, a bill was passed re-organizing the bank, many prominent members of both houses who had previously voted against a renewal of the charter now voting in its favor. The bill was vetoed by President Madison, in his message of January 30, in which, "waiving the question of the constitutional authority of the legislature to establish an incorporated bank," he says: "The proposed bank does not appear to be calculated to answer the purposes of reviving the public credit, of providing a national medium of circulation, of aiding the Treasury by facilitating the indispensable anticipations of the revenue, and by affording to the public more durable loans." These objections the President supported with copious arguments, concluding with the suggestion, that if they did not meet with the approval of Congress they could be constitutionally overruled, but that in a contrary event "a more commensurate and certain provision for the public exigencies" could be substituted.

SECOND BANK OF THE UNITED STATES.—On the 10th of April, 1816, a bill was approved by President Madison, which was the second and last charter of the bank granted by the general Government. The plan proposed by Mr. Dallas was modeled upon the charter of the first United States Bank, and the act of incorporation, as finally passed, did not differ materially from the plan proposed by him. The charter was limited to twenty years, expiring on March 3, 1836. The capital was fixed at \$35,000,000, seven millions of which was to be subscribed by the Government, payable in coin, or in stock of the United States bearing interest at five per cent., and redeemable at the pleasure of the Government. The remaining stock was to be subscribed for by individuals and corporations, one-fourth being payable in coin, and three-fourths in coin or in the funded debt of the United States. Five of the directors were to be appointed by the President, and all of them were required to be resident citizens of the United States, and to serve without compensation. The amount of indebtedness, exclusive of deposits, was not to exceed the capital of the bank. The directors were empowered to establish branches, and the notes of the bank, payable on demand, were receivable in all payments to the United States. The penalty for refusing to pay its notes or deposits in coin, on demand, was twelve per cent. per annum until fully paid. The bank was required to give the necessary facilities, without charge, for transferring the funds of the Government to different portions of the Union, and for negotiating public loans. The moneys of the Government were to be deposited in the bank and its branches, unless the Secretary of the Treasury should otherwise direct. No

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notes were to be issued of a less denomination than five dollars, and all notes smaller than one hundred dollars were to be made payable on demand. The bank was not, directly nor indirectly, to deal in anything except bills of exchange, gold or silver bullion, goods pledged for money lent, or in the sale of goods really and truly pledged for loans, or of the proceeds of its lands. No other bank was to be established by authority of Congress during the continuance of the corporation, except such as might be organized in the District of Columbia with an aggregate capital not exceeding six millions of dollars; and, in consideration of all the grants of the charter, the bank was to pay to the United States a bonus of \$1,500,000, in three annual installments.

The bank went into operation on January 7, 1817. This was at the worst stage of the monetary troubles, which began with the suspension of specie payments in 1814, and continued till the general crash of 1819-'20. At this time lands and agricultural products had fallen to one-half the prices which were readily obtainable in 1808-'10, and to one-third of the value they possessed when the excessive indebtedness of the people was incurred—namely, during the inflation years of the State banks. The contraction of the circulation and the general failures of the State banks began in 1818. The second United States Bank, therefore, came into existence on the very verge of a great monetary crisis. A committee of investigation was appointed by the House on November 30, 1818, which reported that the charter had been violated in four instances; and a resolution was introduced on February 9, 1819, instructing the Committee on the Judiciary to report a bill repealing the act incorporating the bank. This resolution failed of adoption.

In 1819, the financial affairs of the country were in a wretched condition. The currency was greatly depreciated; very many failures of State banks, corporations, and individuals had occurred, and the country had not yet recovered from the exhausting effects of its late war. In this emergency the bank attempted, by the importation of more than seven millions of dollars from Europe, at a cost of half a million, to restore soundness to the currency; but it became itself embarrassed, largely through the mismanagement of the branch at Baltimore, and was in danger of absolute failure. Its losses were reported to exceed three millions of dollars; but the bank, as well as the business of the country, eventually recovered.

The industries of the people and the finances of the Government prospered from 1820 to 1835. In this interval the national debt was paid, and the stock of the bank rose in the market until it commanded a premium of twenty per cent. "Long before the election of General Jackson," says Mr. Parton, "the bank appeared to have lived down all opposition. In the presidential campaign of 1824 it was not as much as mentioned, nor was it mentioned in that of 1828. In all the political pamphlets, volumes, newspapers, campaign papers, burlesques, and caricatures of those years there is not the most distant allusion to the bank as a political issue." It was therefore a surprise to all parties when President Jackson, in his first message, in December, 1829, recommended that Congress should take into consideration the constitutional difficulties which might interfere to prevent a recharter of the bank. During the session of 1832-'33, the House of Representatives, by a vote of 110 to 46, passed a resolution declaring that the public moneys were safe in the bank of the United States. Mr. McLane, then Secretary of the Treasury, was, in 1833, appointed Secretary of State, and Mr. Duane succeeded him in the Treasury.

After the adjournment of Congress, Secretary Duane declined to remove the public deposits upon the request of the President, in consequence of which he was displaced and Attorney-General Taney appointed in his stead, by whom they were removed. On the re-assembling of Congress, in December, 1833, the Secretary gave his reasons for removing the deposits. Resolutions of both houses followed upon this procedure of the Executive, and the memoranda of John Quincy Adams thus briefly presents the results: "The Senate this day (March 28, 1834) took the question on two resolutions offered by Henry Clay: 1. Censuring the President of the United States for usurpation of power in his late measures; passed by a vote of 26 to 20. 2. That the reasons of the Secretary of the Treasury for removing the deposits are insufficient; by 28 to 18."

And Mr. Adams adds that, in his opinion, the first of these resolutions should not have been passed. It was afterward (March 16, 1837) expunged from the Senate Journal. On April 4, 1834, he has the following entry: "The first resolution in the House of Representatives (that the Bank of the United States ought not to be re-chartered) was carried, 134 to 82. The second resolution, that the public deposits ought not to be restored to the Bank of the United States, passed by a vote of 118 to 103. The third resolution, that the State banks should be continued as depositories, and that Congress should further regulate the subject by law, passed by 117 to 105. The fourth resolution, directing the appointment of a select committee for a bank investigation, with power to visit the bank and any of its branches was adopted by a vote of 175 to 42." The Treasury records show that the Government realized a profit of \$6,093,167 upon its investment in the stock of the bank.

The agitation of the United States Bank question, involving the general subject of the currency, which was awakened by President Jackson's first annual message, had become earnest in Congress as early as the session of 1829-'30; and it grew more and more intense until, as a subject of legislation, it was settled on July 10, 1832, by his veto of the bill for rechartering the bank. The interval of about six years from the time of the President's first intimations of hostility to the bank to the expiration of its charter, in March, 1836, is memorable for the persistence and violence of the warfare between the bank and its party, and the administration and its supporters, in and out of Congress. The most important event which marked the struggle was the removal of the deposits of the Government from the Bank of the United States to the State banks, under the order of Secretary Taney, executed on the 1st of October, 1833, which has already been noticed.

The Globe, of the 20th of September, 1833, announced that the public deposits would, "after the 1st of October, be made in the State banks, but that it is contemplated not to remove at once the whole of the public money now on deposit in the Bank of the United States, but to suffer it to remain there until it shall be gradually withdrawn by the usual operations of the Government." The bank thenceforward knew that if its own policy should be pacific, it had nothing to fear from any unusual call from the Government; yet with specie enough in its vaults to pay the entire public deposit at once, it maintained its stringency, under the pretext that it must be prepared for vindictive attacks from the Treasury Department.

But other results followed, which were of much more consequence than the question of the fitness or unfitness of a particular fiscal agency of the Government. The State banks which were selected as depositories of the large revenues of the Treasury expanded their issues, and a multitude of other banks, old and new, went wild in a general inflation of the circulation. The aggregate of their circulating notes (exclusive of those of the Bank of the United States) rose from \$61,000,000 in 1830 to \$149,000,000 in 1837. In March, 1830, the Finance Committee of the Senate had said: "They are satisfied that the country is in the enjoyment of a uniform national currency, not only sound and uniform in itself, but perfectly adapted to all the purposes of the Government and the community, and more sound and uniform than that possessed by any other country." And yet, but seven years after this, on the 10th of May, 1837, all the banks then in operation, with the mammoth United States Bank of Pennsylvania among them, went into suspension, as if by common consent; or, as Colonel Benton has it, "with a concert and punctuality of action which announced arrangement and determination such as attend revolts and insurrections in other countries;" and he declares that "the prime mover and master manager of the suspension was the Bank of the United States, then rotten to the core and tottering to its fall, but strong enough to carry others with it, and seeking to hide its own downfall in the crash of a general catastrophe." This allegation derives some support from the report of the committee of the stockholders, made in January, 1841, after the failure of the bank. They say: "The origin of the course of policy which has conducted to the present situation of the affairs of the institution dates beyond the period of the recharter by the State."

Favored by an excess of importations of specie, amounting to

nearly twenty millions in the two years ending September 20, 1838, the banks of New York and New England resumed on May 10 of that year. The banks of Philadelphia made three resurrections and as many failures before February, 1841, and did not effectively resume until March of the following year; so that, from the time when the Senate committee had so highly commended them, a period of twelve years of vicious fluctuation and depreciation of the currency elapsed before the banks again settled into what was then called "a state of regularity." During this period they reduced their circulation from 149 millions in 1837 to 58 millions in 1843, which is three millions below the amount at which it stood thirteen years before.

The United States Bank did not wind up its affairs, nor even prepare to do so; on the contrary, it applied for and obtained a charter from the legislature of Pennsylvania, which was granted and approved by the Governor of the State on the 18th of February, 1836, just thirteen days before the expiration of its charter from the general Government. This charter differed in nothing essential from that just expiring, except in the term of the bank, which was extended to thirty years, and in the amount of the bonus paid and to be paid for it. It was in effect a renewal and extension of the charter, without change of conditions or purposes, and under the old corporate name. The title of the act of incorporation, however, is worthy of note. It is styled, "An act to repeal the State tax on real and personal property, and to continue and extend the improvements of the State by railroads and canals, and to charter a State bank, to be called the United States Bank." The bonus, or cost of the charter to the bank, if it had maintained its existence and solvency long enough to meet the charges imposed, would not have fallen short of five million of dollars, assuming, which it is safe to do, that the long list of subscriptions required to be made to railroads, canal, navigation companies, and turnpike roads, scattered all over the State, should eventually prove to be unproductive.

Colonel Benton describes the Pennsylvania charter as "a transmigration of the Bank of the United States, * * * changing itself from an imperial to a provincial institution, retaining all the while its body and essence, its nature and attributes, its name and location;" and he does not hesitate to ascribe "every circumstance of its enactment to corruption, bribery in the members who passed the act, and an attempt to bribe the people by distributing the bonus among them." The subsequent disastrous history of the bank would seem in some measure to justify these charges. This bank, as has been seen, suspended specie payments as often as other State institutions, and finally succumbed to trials which other banks, more prudently managed, survived. It made an assignment of certain securities on May 1, 1841, to secure five millions of post-notes which other banks had taken in exchange for its demand-notes. The second assignment was made June 7, 1841, to secure its notes and deposits, "among which were notes and deposits of the late Bank of the United States, incorporated by Congress," so that it appears to have been, up to 1841, using its old issues. The third and final assignment, made on September 4, 1841, covered all its remaining property, "to provide for the payment of sundry persons and bodies corporate which the bank is at present unable to pay."

Nicholas Biddle had been the president of the bank from January, 1823, to March, 1839, when he resigned, leaving the institution, as he said, "prosperous." The shares, however, were sold at that time at 111, instead of 125, as in 1837, and were quoted in April, 1843, after its failure, at one and seven-eighths. The final result of the liquidation of the bank is briefly stated in a letter from the late Thomas Robins, Esq., president of the Philadelphia National Bank, who was the last survivor of its numerous assignees. He said: "All the circulating notes of the Bank of the United States, together with the deposits, were paid in full, principal and interest, and the accounts of the assignees were finally settled in 1856. There were no funds, and no dividend was paid to the stockholders of the bank; the whole twenty-eight millions of dollars were a total loss to them. The seven millions of stock held by the United States previous to the institution becoming a State bank was paid in full to the Government, so that the United States lost nothing by the bank."

State Bank Currency

The era of State banking which followed the failure of the second Bank of the United States was marked by over-expansion and insecurity of currency that led up to the passage of the National Bank Act. During this era two historic experiments were tried. The "Suffolk System" in New England embodied the principle of bank assets currency. The "Safety Fund System" in New York was based upon the mutual guarantee principle. The report of former Comptroller Knox previously referred to, describes the two currency systems thus specified substantially as follows:

SUFFOLK SYSTEM.—Up to 1779 few banks had been incorporated in New England. In that year a general law was enacted prohibiting the establishment of unincorporated associations or the further issue, except by the Nantucket Bank, of notes of a less denomination than \$5. In 1803 an act was passed requiring the banks to make semi-annual returns of their condition to the Governor and Council, to be signed by the directors; and by an act of 1805 the returns were required to be sworn to. The returns made in June, 1805, showed sixteen banks then in operation, with an authorized capital of \$5,760,000, of which \$5,460,000 had been paid in. From this time to 1811 but one other bank was chartered. The currency had, in the meantime, again become greatly deranged, notes as small as twenty-five cents being largely in circulation, and specie once more nearly disappeared. Many of the New England banks failed during the crisis of 1808-9, but those of Massachusetts resting on a firmer basis by a sudden contraction of their issues mainly escaped. The discount in Boston on New England bank notes ranged, in 1809, from 10 to 60 per cent, and in Philadelphia many of them were at a discount of 50 per cent or more. To remedy this evil the Legislature of Massachusetts passed an act of January 1, 1810, fixing the penalty of 2 per cent a month, payable by the bank to the billholder, for failure or refusal to redeem their notes on presentation. Two banks were chartered in 1811, one of which was the State bank of Boston, with an authorized capital of \$3,000,000, the State reserving the right to subscribe for \$1,500,000 additional. This subscription, however, was never made. It may here be said that in nearly all the charters granted subsequent to the year 1793 provision was made for a State subscription, usually about one-third of the capital. Under these provisions the State became largely interested in the banking business, holding, in 1812, about \$1,000,000 of banking stock, the total bank capital in the State being then about \$8,000,000. Nearly all the banks were newly chartered in 1811, the new charters generally reducing the authorized circulation from twice the amount of paid-in capital to 50 per cent in excess of such capital. In 1812 the State commenced taxing bank capital, the rate imposed being one-half to 1 per cent.

In 1813 a movement toward reform in the bank currency began. Bills of banks of other States were then at a discount in Boston of from 3 to 5 per cent, and the notes of the Boston banks had nearly disappeared. The New England Bank, organized in that year, with a capital of \$1,000,000, instituted the system of sending foreign bills for redemption to the banks which issue them, and charging the billholders only the actual expense of transmitting the notes and returning the products. This was the beginning of the system of redemption afterwards known as the Suffolk Bank System. This system was more fully developed at a later period, 1825, when five of the Boston banks undertook its management. For a long time the system was bitterly opposed by those banks interested in preventing a return of their circulation, but which was eventually successful. Its exclusive management was finally assumed by the Suffolk Bank, which bank compelled the redemption at par in Boston of the notes of the New England banks by a system of assorting and returning the notes to the place of issue, and its operations were continued down to the establishment of the national bank system.

SAFETY FUND SYSTEM.—In the State of New York the

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safety-fund system was recommended by Mr. Van Buren in his message as Governor in 1829, and the act establishing it passed the Legislature and became a law on April 2d of that year. Forty banks were then in operation, and their charters were about to expire. It is said to have been suggested by a system which originated with the Hong merchants in China, by which each member contributed to uphold and cherish the weak members of the Hong. The act authorized the issue of circulating notes not exceeding twice the amount of capital paid in, and limited the loans to two and one-half times the amount of the capital. The feature of most importance in the act was the establishment of a common fund, by provision, requiring every banking corporation thereafter organized, or whose charter should be renewed or extended, to pay annually to the Treasurer of the State a sum equal to one-half of 1 per cent of its capital stock paid in, the payments to be continued until such corporation had paid into the treasury 3 per cent upon its capital stock. The fund thus created was made applicable to the payment of the circulation or other debts of insolvent banks contributing to the same. If the fund became, at any time, diminished by payments from it, its bank was required to renew its annual contribution until the deficiency was restored.

Contributions to the fund were first made in 1831. In 1841-42 eleven of the safety-fund banks failed, with an aggregate capital of \$3,150,000. The sum which had been paid into the fund by these banks was but \$86,274, while the amount required for the redemption of their circulation was \$1,548,588, and for the payment of claims of their other creditors \$1,010,375, making a total of \$2,558,933. According to the report of the State Comptroller made in 1849, the whole amount contributed to the fund down to September 30, 1848, was but \$1,876,063, and even if the payments as required by law had been made by all the banks organized under the system, the fund would still have been insufficient to pay the deficiency occasioned by the insolvency of these eleven banks. This deficiency was subsequently provided for by the issue of a 6 per cent stock by the State, to be reimbursed largely by new contributions from the banks. During the year 1842 the act was so amended that the safety fund became a security only for notes in circulation, and not for the other debts of the banks. The safety-fund act did not provide for the organization of new banks; such banks were still required to obtain special charters as before the passage of the act.

Another feature of the system was the appointment of three bank commissioners to supervise and inspect the several banks and report annually to the Legislature the result of their investigations. It was supposed that a commission consisting of three persons each would be a check upon the others. To effect this purpose, the Governor and Senate were to appoint one commissioner, the banks in the southern portion of the State another, and the remaining banks a third. The law authorizing the appointment of commissioners was changed in 1837 so as to give the selection of all three of them to the Governor and Senate. Hon. Millard Fillmore, Comptroller of the State of New York, in his report for 1849, says: "This, of course, brought them within the vortex of the great political whirlpool of the State, and the places was sought for and conferred upon partisan aspirants without due regard in all cases to their qualifications to discharge the delicate trust committed to them. This state of things, under the administration of both the great political parties of the State, continued until 1843, when the Legislature abolished the offices and conferred the power of examining these banks upon the Comptroller whenever there was reason to suspect that a bank had made an incorrect report or was in an unsafe or unsound condition to do a banking business."

The restraining act of 1804 prohibited any person, under the penalty of \$1,000, from subscribing or becoming a member of any association for the purpose of receiving deposits or of transacting any other business which incorporated banks may or do transact by virtue of their acts of incorporation. This restraining law is said to have been passed through the aid of influential men who controlled and were interested in banking corporations then in existence, its purpose being to prevent private banking institutions from continuing business. This law prohibited associations

of persons from doing a banking business; but individuals and incorporated institutions subsequently issued bills in denominations as low as six, twelve, twenty-five, fifty and seventy-five cents. To prevent a further issue by irresponsible persons of currency in the similitude of bank notes, which had become a great evil at the close of the War of 1812, the restraining act of 1818 was passed, which provided that no person, association of persons or body-corporate, except such bodies-corporate as were expressly authorized by law to keep its office for the purpose of receiving deposits or discontinuing notes or bills, or for issuing any evidence of debt to be loaned or put in circulation as money. This law remained upon the statute books for thirty-two years, and after various unsuccessful attempts was finally repealed in 1837, one year before the passage of the free banking law.

The free banking system of New York was authorized on April 13, 1838. Under its provisions any number of persons was authorized to form banking associations upon the terms and conditions and subject to the liabilities of the act. The law originally provided that such associations, on depositing stocks of the State of New York, or of the United States, or any State stock, which should be, or be made, equal to 5 per cent stock or bonds and mortgages on improved and productive real estate worth, exclusive of the buildings thereon, double the amount secured by the mortgage, and bearing interest at not less than 6 per cent per annum, should receive from the Comptroller of the State an equal amount of circulating notes. Previous to the year 1843, twenty-nine of these banks, with an aggregate circulation of \$1,233,374, had failed; and their securities consisting of stocks and bonds and mortgages amounting to \$1,555,338, were sold for \$953,371, entailing a loss of \$601,966. The avails of the securities were sufficient to pay but 74 per cent of the circulation alone. The losses to the billholders occurred only in the case of those banks which had deposited State stocks other than those of New York. The law was thereupon so amended as to exclude all stock except those issued by the State of New York, and require these to be made equal to 5 per cent stock. The amendment in 1849, that the bonds and mortgages should bear interest at 7 per cent, and should be on productive property and for an amount not exceeding two-fifths of the value of the land covered by them. Subsequently, on April 10, 1849, the law was again so amended as to require that at least one-half of the securities so deposited should consist of New York State stocks or stocks of the United States, securities in all cases to be, or to be made, equal to a stock producing an interest of 6 per cent per annum and to be taken at a rate not above their par value and at not more than their market value.

In 1840 a law was passed requiring the banks of New York to redeem their notes at an agency of the bank either in New York City, Albany or Troy, at one-half of 1 per cent discount. This discount was reduced in 1851 to one-quarter of 1 per cent. After the passage of this act two of the principal banks in the State of New York inaugurated a plan of redemption similar to the Suffolk system. The notes of such associations as kept a deposit with them were returned to the banks of issue, and the discount of one-quarter of 1 per cent was divided between the redemption agent and the associations whose notes were redeemed. Those banks which did not provide the means of redemption were forced to close up their affairs. Hon. Millard Fillmore, Comptroller of the State of New York, in his report for 1849, says: "The safety-fund banks derived much of their credit from the individuals incorporated. By granting a special charter in each case, the Legislature had in its power in some measure to control this matter. The practice of granting exclusive privileges to particular individuals invited competition for these legislative favors. They were soon regarded as part of the spoils belonging to the victorious party, and were dealt out as rewards for partisan services. This practice became so shameless and corrupt that it could not be endured any longer, and in 1839 the Legislature sought a remedy in the general banking law. This was the origin of the free-banking system. Since that time no safety-fund bank has been chartered, and in 1846 the people set their seal of reprobation upon this practice of granting special charters for banking purposes by providing

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in the new constitution that "Legislature should have no power to pass any act granting any special charter for banking purposes, but that corporations or associations might be formed for such purpose under general laws."

EFFECT OF EARLY STATE BANKS UPON PRESENT SYSTEM.—The student of banking of the present generation should not fall into the error of assuming that all the early State banks were failures or that the laws under which they operated were unsound. Many of the first few State banks organized under special charters are still in a prosperous condition, doing business as State institutions, as, for example, the Bank of the Manhattan Company, organized by Aaron Burr. Most of them, however, took out National charters after the passage of the National Bank Act and among this number may be mentioned Alexander Hamilton's Bank of New York, N. B. A. and the Bank of North America, Philadelphia, which, on account of its prestige as the first bank organized in the United States was, by a special act of Congress, permitted to omit the word "National" from its title.

The banking law of the State of New York, discussed in the preceding paragraphs, was adopted as a model for the National Bank Act, not because it was essentially superior as a sound banking code, but because it suggested a method of providing an artificial market for the sale of government bonds during the Civil War at a time when the national credit was very low. Bank note issues under the Suffolk system of New England were on a more scientific basis in most particulars than the issues of the present National banks now superseded by the Federal Reserve Act.

It is worth while to compare two of the best of the early State systems with the latest banking legislation, namely, the State banks of Louisiana and of Indiana. Speaking of the former, Horace White says:

"The State of Louisiana had her full share of bank misery in 1837 and later. Her banks suspended specie payments, and so remained until 1842. In that year the State passed a banking law which was, in nearly all respects, a model for other States and countries. The principal features of this law were the requirements (1) of a specie reserve equal to one-third of all its liabilities to the public; (2) the other two-thirds of its liabilities to be represented by commercial paper having not more than ninety days to run; (3) all commercial paper to be paid at maturity; and, if not paid, or if an extension were asked for, the account of the party to be closed and his name to be sent to the other banks as a delinquent; (4) all banks to be examined by a board of State officers quarterly or oftener; (5) bank directors to be individually liable for all loans or investments made in violation of the law, unless they could show that they had voted against the same if present; (6) no bank to have less than fifty shareholders, having at least thirty shares each; (7) any director going out of the State for more than thirty days, or absenting himself from five successive meetings of the board, to be deemed to have resigned, and his vacancy to be filled at once; (8) no bank to pay out any notes but its own; (9) all banks to pay their balance to each other in specie every Saturday, under penalty of being immediately put in liquidation; (10) no bank to purchase its own shares or lend on its own shares more than thirty per cent. of the market value thereof. The law allowed some loans to be made on mortgage security, but it restricted such loans to the bank's capital. No part of the deposits could be lent except on commercial paper maturing within ninety days. I judge that not many mortgage loans were made by the Louisiana banks, since none of them suspended in the panic of 1857, although most of the banks of the country were temporarily closed by that catastrophe. I think that the Louisiana Bank Act of 1842 was eminently scientific. It was the first law passed by any State requiring a definite amount of specie to be kept as a reserve. The Louisiana law required no pledged security for the circulating notes of banks, nor did it put any limit on the amount of their issues. All this was covered, and amply covered, by requiring thirty-three per cent. of specie against all liabilities, whether deposits or notes, the balance of the assets to be in mercantile paper having not more than ninety days to run."

BANK OF INDIANA.—The Bank of Indiana was another sound and successful State bank and it is noteworthy in view of

the criticisms that were directed against the Federal Reserve Act, that the measure that proved such a success in Indiana was drawn up by business men without banking experience. John Jay Knox, in his "History of Banking," says of this bank:

"The State was divided into ten districts for branches, and provision was made in the charter for three more, which was afterward increased until the number of branches reached seventeen, the State taking stock in the new branches until its holdings amounted to about \$1,500,000. The parent bank was supervisory in its nature, its banking powers being exercised through the branches. It had absolute power over the branches, and could limit their business or close them entirely if it was considered that they were operating so as to endanger the other branches. Each branch was liable for the debts of the other branches. The bank was authorized to receive deposits, buy and sell gold, silver, bullion, and foreign coins; discount commercial paper and issue bills payable to bearer. The bank was not at any time to suspend specie payment, on a forfeiture of twelve and one-half per cent. interest on all bills refused to be redeemed in coin. The branches were to be mutually responsible for the redemption of all the bills issued, but each branch was to hold its own profits. No notes were to be issued of a less denomination than five dollars, and the State reserved the right to raise this limit to ten dollars nor was the bank permitted to receive and place in circulation bills of other banks of a smaller denomination. The State reserved the right to elect the President and four of the seven directors of the parent bank, and one-half of the directors of the branches, the individual stockholders electing the other directors. On all applications for loans of \$500 and upward it was required that at least five of the seven directors should concur before the loan was made. No loan to exceed \$5,000 was to be made without the consent of the parent bank."

"Indiana was then an agricultural State, and the great object of the bank was to encourage the development of the agricultural resources of the State, hence a rule was adopted that under no circumstances would a loan to exceed \$300 be made to a merchant, or \$500 to a manufacturer. Great care was exercised in making loans, even of the smallest amount, and diligent inquiry was made as to the standing of a proposed borrower, not so much as to his wealth, as to his sobriety, integrity and industry. It has been claimed as a result of this carefulness that the bank in twenty-five years of doing business, and loaning many millions did not lose \$50,000 from bad debts. The bank was a complete monopoly. During its existence no other bank of issue could operate in the State. Its capital had to be specie, and was gradually increased until in 1841 it amounted to \$2,500,000, but in 1843 the State reduced its holdings by withdrawing about \$500,000."

"No bank in the country stood higher than did the State Bank of Indiana during the panic of 1837. In all the Western and Southern States its notes commanded a premium, and in the East were taken at a very small discount. This high standing was all the more remarkable from the fact that when the bank was organized it was by men unused to banking business. Prior to that time Indiana had never had a great financial institution; she was far away from the centre of financial control, and her citizens had had no experience in the management of such institutions. Its loans were made in small amounts, and scattered over the entire State, thus affording the greatest possible measure of relief. The bank generally carried an ample specie reserve, never falling below twenty per cent. of its immediate liabilities and usually being much greater. Prior to the California gold discoveries in 1848, this reserve was chiefly in silver."

Modern American Banking

Banking laws in the United States, both National and State, have become crystallized into concrete form, and in the organization of any banking corporation certain legal requirements are prescribed by governmental authorities. Under the National Bank Act there is practically but one form of charter. The laws of the different States, however,

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provide for State banks of deposit and discount, loan and trust companies and savings banks. In a restricted sense, building and loan associations also do a banking business, and may be incorporated under State law. Trust companies are organized primarily for the purpose of holding and administering trusts of various kinds. In this capacity trust companies may act as administrators of estates, executors of wills, guardians of minors or incompetent persons, and, in short, assume all such responsibilities delegated to individual trustees. Trust companies may also act as registrars and transfer agents. Most trust companies have added to this a general commercial banking business. Commercial banks under State authority differ but little from national banks in the general methods and scope of their business, but in some instances are allowed greater latitude in the character of their loans and investments.

STATE AND NATIONAL INSTITUTIONS.—State banks do not issue circulating notes, the federal tax upon them of ten per cent. being prohibitive. State banks are generally allowed to establish branches. Savings Banks in the Eastern States are mostly mutual. In some States no other form of institution is permitted to use the word "Savings" in name or otherwise. Such banks transact a purely savings business. In some States they have no capital stock, the earnings being the property of the depositors. They are managed by a board of trustees or directors chosen presumably for their business ability and high standing in the community. In Western and Southern States savings banks are usually joint-stock concerns and do both savings and commercial business. National banks are subject to the rigid requirements of the National Bank Act. They are required to subscribe to the capital stock of the Federal Reserve Banks. State banks are not, although they may do so by conforming to certain regulations without taking out a new charter as a national bank. Until recent years national banks did little except a strictly commercial business, but many of them have now opened savings departments. Under the Federal Reserve Act, subject to the approval of the Federal Reserve Board, national banks may act in a fiduciary capacity when not in contravention of state laws. In certain districts they may also loan on farm mortgages. National banks, among others, are the depositories of funds in the United States and of postal savings banks, and in reserve cities may be designated as depositories of a portion of the reserves of other national banks. National banks are not permitted to establish branches, although State banks with branches may be converted into national banks without discontinuing branches already established.

BANKING OPPORTUNITIES.—In the organization of any new bank several vital points must be taken into consideration. If the proposed location is without banking facilities, there should be substantial assurances that banking facilities are needed. If the proposed enterprise is in a place where existing facilities are presumably inadequate, or where existing institutions are unpopular or unenterprising, due consideration must be given to probabilities that banks already established may be so stimulated by competition as to materially change local conditions and thereby minimize any necessity for additional facilities that may originally have existed. Moreover, there is in every community a class

of people who will encourage the establishment of a new bank for the sole purpose of securing concessions from an old one. The new bank will receive their so-called moral support, but the old bank will retain their business. There is also in every community a class of unprofitable and dangerous business which established institutions are willing to see diverted to a new bank, to its possible embarrassment. However, with all the inevitable disadvantages of a new bank as compared with old ones, American growth and enterprise require additional banking facilities in many localities, and when conservative investigation warrants the establishment of a new bank in any city or town, the next consideration is the kind of bank best adapted to local conditions and circumstances.

PRELIMINARY CONSIDERATIONS.—Shall the new institution be a National bank, a State bank, or a trust company? What is the amount of prospective deposits, and what is the character of prospective depositors? Is the business apparently in sight in the form of commercial paper, collections, loans on collateral, loans on real estate, or is it in the management of estates or inactive funds? The character of available business naturally determines the character of the institution best adapted to handle it. If the field is especially prolific in inactive personal accounts and there is a demand for loans on collateral security or real estate, a trust company would seem to be the most attractive proposition. If, on the other hand, the field offers the best opportunities along the lines of commercial activity, a bank of deposit and discount would logically be the best form of incorporation. In the latter case the next question to be decided would be the relative advantages of National and State charters from the viewpoint of the proposed institution. So far as deposits and discounts are concerned, there is little difference between National and State banks. The rigid examinations which are a part of the National banking system have been looked upon by some bankers as a disadvantage. On the other hand, the requirements of the government strengthen public confidence in National banks, and, whatever may have been the sentiment in the past, the majority of conservative bankers would not now have such requirements removed or modified if they could. Year by year the banking laws of the various States are made to conform more strictly to the government standard, and, instead of weakening or embarrassing State banks, they have grown stronger and more numerous. In the organization of any National bank, specific forms and directions are furnished by the Comptroller of the Currency. In the organization of any State bank, trust company or savings institution, similar forms and directions are furnished by State authorities. In either case, however, it is wise to engage the services of a competent attorney. It will thus be seen that with formalities prescribed by governmental authorities and legal technicalities delegated to legal talent, any proposition to organize a bank is not so much a matter of routine knowledge on the part of the organizers as it is a matter of judgment regarding conditions. If you have sufficient capital, opportunities, initiative, personality, and public confidence, it may be well for you to organize a bank. Otherwise apply to any new bank project the principle set forth in Jerrold's "Advice to those about to marry—Don't."

National Bank Organization

In view of the importance of the National banking system of the United States and the further consideration that State banking laws are based largely upon the general provisions of the National Bank Act, all students of banking should become familiar with the organization and administration of National banks. The preliminary steps to be taken in organizing a national bank are (1) Notice to the Comptroller of the Currency, (2) execution in duplicate of article of association, (3) execution in duplicate of an organization certificate. Previous to the notice to the Comptroller a meeting of those interested should be called and the matters to be mentioned in said notice duly acted upon. These are (1) the amount of capital, (2) the title of the bank, (3) the location of the bank. The minimum amount of capital is graded according to the population of the place where the bank is to be located. Minimum capital is not always desirable, since under the National Bank Act only 10% of the capital and surplus can be loaned to one individual or corporation, and much valuable business may be lost through inability to make loans of sufficiently large amount. National banks with a minimum capital of \$25,000 may be organized in a place the population of which does not exceed 3,000; minimum capital of \$50,000 in places the population of which does not exceed 6,000; minimum capital of \$100,000 in places the population of which does not exceed 50,000; and minimum capital of \$200,000 in places with population of over 50,000. The location and title of the bank are, of course, more easily determined, but care should be taken that the exact corporate name desired is mentioned in the notice to the Comptroller. In fact in all documents connected with organization the title of the bank should be exactly stated without variation. A committee may also be appointed at this meeting to obtain subscriptions to the stock. The following particulars regarding the organization of National banks are condensed from instructions furnished by the Comptroller of the Currency:

NOTICE TO THE COMPTROLLER.—Preliminary matters having been determined, a notice should be sent to the Comptroller of the Currency stating the matters which have been decided. Such notice must be signed by at least five persons who contemplate being stockholders of the association. A majority of such signers must be residents of the place of location. It should contain a statement as to the business and financial standing of the signers and an indorsement by a United States Senator, Representative, judge of court, or other prominent public official, personally acquainted with the applicants, in relation to their character and financial responsibility. The persons uniting to organize a national bank must be natural persons—that is, individuals who can legally hold and control property in their individual right—and not corporations, firms, or associations of any character. If the application receives the approval of the Comptroller he will furnish all necessary blanks for use in effecting the organization with instructions for their proper execution, and the title applied for will be reserved for a period of sixty days, during which time it is expected that the organization of the bank will be completed. It should be noted that the approval of the Secretary of the Treasury is necessary for banks of less than \$100,000 capital.

ARTICLES OF ASSOCIATION AND ORGANIZATION CERTIFICATE.—Following the approval of the Comptroller, articles of association should be adopted and the required organization certificate prepared. Both of these documents should be exe-

cuted in duplicate, one copy of each being forwarded to the Comptroller and the other retained by the bank. These documents must be signed by at least five persons and those who sign the articles of association must sign and acknowledge the organization certificate. When these papers have been duly acted upon, directors of the bank should be elected, if they are not stated in the articles of association. Each bank must have at least five directors, but the number may be larger if it is so decided upon. The qualifications of directors of a national bank are prescribed in the National Bank Act, and provide that they must be citizens of the United States, and at least three-fourths of the board must have resided in the State or Territory where the bank is located for one year just preceding their election, and must be resident therein while directors; that every director also must own in his own right and free from pledge at least five shares of the capital stock of the bank if the capital is only \$25,000, and ten shares if more than that. This amount of the proposed stock it is necessary to pay for only as the regular payments on the stock of the bank are required by law. When the articles of association and organization certificate have been executed and filed with the Comptroller the association becomes a regular incorporated body from the date on which the organization certificate was executed. The revised statutes provide that no change shall be made in the articles of association of a national bank by which the rights, remedies, or security of the existing creditors of the association shall be impaired; which by implication authorizes amendments not contravening the rights of creditors. As a matter of fact, the national banking law specifically provides for amendments of the articles of association changing corporate title, location of bank, increasing or reducing the capital stock, and extension of corporate existence. Amendment of the last named character requires the written consent of shareholders owning two-thirds of the stock of an association, but the other changes require authorization by a two-thirds stock vote at a meeting of shareholders called for the purpose. Ordinarily a provision is written into the articles of association of national banks authorizing amendment, in any respect not conflicting with law, by a majority stock vote. The shareholders of every national banking association shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such association, to the extent of the amount of their stock therein, at the par value thereof, in addition to the amount invested in such shares.

CAPITAL REQUIREMENTS.—The proportion of capital required for organization, that is one-half, must be paid in money, and each subsequent installment must be so paid until all the capital is paid in. Promissory notes or other evidences of debt can not be taken in payment for subscriptions to capital stock. In case subscriptions to stock are paid in installments, temporary certificates may be issued and the amount of each payment credited thereon. When all installments have been paid the temporary certificates should be surrendered and cancelled and permanent certificates of stock issued in lieu thereof. The directors having been elected, and taken the required oath, should, as soon as practicable, elect a president and vice-president of the association, a cashier, and such other officers as may be required, and call in the remaining subscriptions to the stock according to the terms of subscription and the requirements of law. National banks with a minimum capital of \$25,000 may be organized in a place the population of which does not exceed 3,000; minimum capital of \$50,000 in places the population of which does not exceed 6,000; minimum capital of \$100,000 in places the population of which does not exceed 50,000; and minimum capital of \$200,000 in places with population of over 50,000.

AUTHORITY TO BEGIN BUSINESS.—All of the organization papers having been received by the Comptroller of the Currency, and the necessary amount of bonds deposited with the Treasurer, the Comptroller, if he is satisfied that the association has complied with the requirements of the law, and that the shareholders have, in good faith, organized for the legitimate objects contemplated by the bank act, will give to the association a certificate authorizing it to commence the business of banking. This certificate, upon its receipt, must be published in a local or county

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newspaper, and proof of publication forwarded to the Comptroller at the proper time. The association having received authority to commence the business of banking, it is presumed that a suitable banking house or room has been secured, and also a vault or safe, which should be burglar and fire proof. In ordering stationery, provision should be made for the printing of the charter number of the bank on letter heads. The Comptroller should be promptly advised of the date on which the bank begins business. The association will have succession for a period of twenty years from the date of the execution of the organization certificate, and not from the date of the certificate of the Comptroller of the Currency authorizing the bank to commence business. When a bank is organized the directors should adopt suitable by-laws consistent with legal provisions. The Comptroller of the Currency will supply forms recommended.

UNITED STATES BONDS.—The provisions of the National Bank Act requiring the purchase of United States bonds are repealed by the Federal Reserve Act. However, since the bond refunding provisions do not go into effect until December 23, 1915, and since Federal reserve banks will then be permitted to issue bond secured notes "to the same tenor and effect" and "under the same terms and conditions as national bank notes" (except the limitations based upon the amount of capital) it is necessary to be familiar with the issue of national bank note provisions. Bonds required to be purchased by National Banks cannot be procured from the Treasury Department, but must be purchased at prevailing prices from dealers in securities of that character. Banks with capital of \$150,000 or less are required to deposit United States bonds equal to one-fourth of their capital, and a deposit of at least \$50,000 in bonds must be made by banks with capital in excess of \$150,000. The issue of circulating notes is optional with the directors of a bank, but deposit of bonds is mandatory. If the bank should desire to issue circulation it may do so to the extent of the par value of the United States bonds deposited, providing the sum does not exceed the amount of its capital stock. Whatever the amount of circulation issued, a deposit of lawful money equal to five per cent. thereof must be made with the Treasurer of the United States to provide for the redemption of notes as they are presented. This is known as the Five Per Cent. Redemption Fund. Circulating notes secured by two per cent. consols of 1930 and two per cent. Panama Canal bonds are subject to semi-annual tax of one-fourth of one per cent., whereas circulation otherwise secured is subject to a semi-annual tax of one-half of one per cent. Such bonds, which must be in registered form, should be sent to the Comptroller of the Currency for transfer to and deposit with the Treasurer of the United States in trust for the association to the account of which they are to be credited. In assigning bonds care should be exercised to enter the exact corporate title of the association. Coupon bonds can be exchanged for registered bonds by sending them to the Comptroller of the Currency with a request for their exchange and that the registered bonds be issued to and deposited with the Treasurer of the United States in trust for the association interested. The Comptroller will authorize the payment of interest on bonds to the bank depositing them, and the Treasurer of the United States will pay the interest, by check, to the order of the bank, payable at the office of any United States Assistant Treasurer or at any United States depository. The law permits national banking associations to withdraw bonds in excess of the legal requirement, held by the Treasurer of the United States in trust, upon deposit of a like amount of lawful money with the Treasurer or an Assistant Treasurer of the United States, to provide for the redemption of the currency secured by such bonds. Authority to withdraw the bonds must be conferred upon the Comptroller of the Currency by the board of directors, and upon some one other than a government official to sell and assign them. If an official of the bank is authorized to dispose of the bonds the resolution should be certified by some officer of the association other than the one empowered to assign them. It is recommended that resolutions be adopted only at regular meetings, but when passed at a special meeting the certificate must be signed by two officers, a form for which purpose will be furnished upon application to the Comptroller of the Currency.

CORPORATE POWERS OF NATIONAL BANKS.—Upon duly making and filing articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

First: To adopt and use a corporate seal.

Second: To have succession for the period of twenty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association, or by the act of its shareholders owning two-thirds of its stock, or unless its franchise becomes forfeited by some violation of law.

Third: To make contracts.

Fourth: To sue and be sued, complain and defend, in any court of law and equity, as fully as natural persons.

Fifth: To elect or appoint directors, and by its board of directors to appoint a president, vice-president, cashier, and other officers, define their duties, require bonds of them and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

Sixth: To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh: To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of the National Bank Act.

But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking.

MEETINGS AND ELECTIONS.—Annual meetings of National banks must be held some time in the month of January. Unless the by-laws provide to the contrary, no notice of an annual meeting is required when the time and place are provided for in the articles of association, if at said meeting the election of directors of an unusual or extraordinary character, such as the amendment only, is to take place. For an annual meeting, at which business of an unusual or extraordinary character, such as the amendment of articles of association, is to be considered, and for all special meetings of shareholders, notice should be given as required by the by-laws and articles of association of the bank. Unless provision is made therein, thirty days' notice of meeting and business to be transacted is required. If for any cause the election of directors is not made at the time appointed and the annual meeting is not regularly adjourned, an election may be held on a subsequent day designated by the directors, thirty days' notice of meeting to be given in a newspaper published in the city, town or county in which the association is located, or the nearest newspaper thereto. In all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder is entitled to one vote on each share of stock held by him. Shareholders may vote by proxies duly authorized in writing, but no officer, clerk, teller or bookkeeper of the association can act as proxy, and no shareholder whose liability is past due and unpaid shall be allowed to vote. The Comptroller, supported by certain decisions of the courts, holds that a director is an officer within the meaning of the act, and, furthermore, that the prohibition with regard to the voting of stock by a shareholder who is liable to the bank merely applies to subscriptions to capital stock. Cumulative voting at meetings of national banking associations is not permissible.

INCREASE OF CAPITAL.—A national banking association may, with the consent of the Comptroller of the Currency and by a vote of shareholders owning two-thirds of the shares, increase its capital stock to any sum approved by the Comptroller. No increase is valid until the whole amount is paid in cash, certified to

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the Comptroller and his certificate of approval is issued, prior to which, if required, additional bonds must be deposited. A portion of a proposed increase will not be approved by the Comptroller. The whole amount, as stated in the resolution adopted by the vote of the shareholders, must be paid in and the payment certified to the Comptroller. The increase becomes operative upon the issuance of the Comptroller's certificate of approval, prior to which no change should be made in the capital stock account nor certificates of stock issued. In increasing the capital stock of a bank neither the surplus fund nor the undivided profits can be used except by the declaration of a dividend by the board of directors in the regular course, in which event the shareholders, if they so desire, may use the dividend checks in payment, to that extent, of their subscription to the additional stock. Such portion only of the surplus funds as exceeds the amount required by law to be accumulated (20 per cent. of the capital) can be capitalized in the manner indicated.

REDUCTION OF CAPITAL.—A national banking association may, with the consent of the Comptroller of the Currency and by a vote of shareholders owning two-thirds of the shares, reduce its capital stock to any sum not below the minimum amount required by the national bank act. The reduction becomes operative upon the issuance of the Comptroller's certificate of approval, prior to which the circulation of the bank must be reduced (if excessive) to at least the amount of the capital after reduction by a deposit of lawful money with the Treasurer of the United States and the withdrawal of a like amount of bonds. No part of the capital set free by reduction can be carried to surplus or to undivided profits without the unanimous consent of the shareholders. When the reduction is made the shareholders should return their old certificates. New certificates for the capital as reduced should be issued. It is not unlawful to issue certificates for fractional shares.

EXTENSION OF CORPORATE EXISTENCE.—The act of Congress approved July 12, 1882, empowers the extension of the corporate existence of national banking associations whose periods of succession are about to expire. Section 5136 provides that all associations organized under it shall have succession for twenty years from the date of the execution of their organization certificates. The officers of a national bank can, therefore, ascertain the date of the expiration of the corporate existence of the association from the date of the last acknowledgment in the organization certificate. If the certificate has been lost or the date is uncertain, information can be obtained upon application to the Comptroller. Under the act of July -2, 1882, and the regulations of the Comptroller's office, shareholders owning at least two-thirds of capital stock are authorized to give their written consent to extension of corporate existence at any time within two years prior to the expiration of existing charter, and the necessary blanks and instructions will be sent a sufficient time in advance to enable them to do so. While no meeting of shareholders is necessary, the law only requiring the written consent of the owners of two-thirds of the capital stock, there is no legal objection to the holding of a meeting of shareholders for the purpose of considering the propriety of extending charter.

When the owners of at least two-thirds of the stock have signed the amendment, in person or by proxy, a meeting of directors should be held and a resolution adopted directing the president or cashier to make the necessary certification to the Comptroller of the Currency, and request the approval of the amendment as provided by law. The amendment, with appended certificate, and request for approval, should be transmitted to the Comptroller at least two months prior to the expiration of the corporate existence of the bank in order to allow sufficient time to cause the special examination to be made as required by law. If any shares of stock standing in the name of administrators, executors, trustees, or guardians are represented, certified copies of the legal appointment of such administrators, executors, trustees, or guardians should be furnished to the bank unless the directors are satisfied of the existence of authority of such administrators, etc., to sign the amendment. In order that stock held by an assignee may be represented, the shares must have been

formally transferred to him on the books of the bank. If the amendment is signed by attorneys acting for shareholders or by an officer of another corporation, properly executed powers of attorney, or other authority should be required and retained for the files of the bank. Subsequent to the receipt of extension papers in due form, the Comptroller will order the special examination required by law, the expense of which must be paid by the bank. If the report of the examiner is favorable, the Comptroller will, at the date of expiration of existing charter, issue the certificate of extension.

The law requires that circulating notes issued to the bank after the date at which the period of succession begins shall be of different devices from those issued before. This necessitates the procuring of new plates, which are prepared at the expense of the bank. A blank to enable a bank to order the engraving of plates and the printing of new circulation will be furnished. The order should be transmitted with the amendment. No transfer of bonds is necessary, as the extended association is, in all respects, the same as before extension. The new circulating notes will be issued as the old issues are received for redemption, until the end of three years from the date of extension, when lawful money must be deposited for the redemption of such portion of the old circulation as may then remain outstanding. Redemption of the old issues may be provided for by depositing lawful money in full, or in instalments, at any time prior to the expiration of the three-year period.

RE-EXTENSION OF CORPORATE EXISTENCE.—The act of Congress approved April 12, 1902, provides that the Comptroller of the Currency may, in the manner provided by, and under the conditions and limitations of the act of July 12, 1882, extend for a further period of twenty years the charter of any national banking association extended under said act, which shall desire to continue its existence after the expiration of its charter.

NATIONAL BANK LIQUIDATION.—A national banking association may be placed in voluntary liquidation by a vote of the owners of two-thirds of the stock. Before calling a meeting of shareholders, however, for the purpose of voting upon the proposition, application should be made to the Comptroller for his approval and the necessary blanks and instructions. When a meeting has been held and a resolution adopted by the required vote, it is the duty of the board of directors to cause notice of the fact to be certified under seal of the association, to the Comptroller of the Currency by the president or cashier, and publication thereof to be made for a period of two months in a newspaper published in the City of New York and also in the place in which the association is located; or if no newspaper is published in such place, then in a newspaper published nearest thereto, that the association is closing up its affairs, and notifying note holders and other creditors to present the notes and other claims against the association for payment. When publication has been made as required, affidavits of the publishers should be sent to the Comptroller of the Currency. When an association, with the approval of the Comptroller, goes into liquidation, its affairs pass into the hands of the shareholders for such legal disposition as may be deemed proper; and, unless a liquidating agent is elected by the shareholders, the settlement of the affairs of the bank would appear to devolve upon the directors, who will be at liberty to continue one or more of the officers or, in lieu thereof, to appoint an agent for the purpose of conducting liquidating proceedings.

NATIONAL BANK CONSOLIDATION.—The only reference to the subject of consolidation in the national bank act appears in the act approved July 14, 1870, and is to the effect that any association closing its affairs (by voluntary liquidation), under authority of law, for the purpose of consolidating with another association, shall not be required to deposit lawful money to provide for its outstanding circulation, but its assets and liabilities shall be reported by the association with which it is in process of consolidation. By implication, this provision would appear to authorize the assignment of bonds on deposit with the Treasurer of the United States to secure the circulation of the liquidating bank to the absorbing association, and require the maintenance of a redemption fund for the outstanding issues of the bank which has gone into

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<p>PRESIDENT VICE-PRESIDENTS CASHIER ASST. CASHIERS</p>	<p>PAYING TELLER (Assistant Paying Teller) (Specie Clerk) (Assistant)</p>	<p>Pays checks presented over the counter. Certifies notes and checks. Issues Custom House transfers. Pays and receives Clearing House balances. Ships currency and silver. Deposits legal tenders and gold in Sub-Treasury for account of correspondents.</p>
	<p>RECEIVING TELLER (First Assistant and Nine Assistants after 12 M) (Three Floaters when work requires it)</p>	<p>Receives deposits of all city dealers. Issues certificates of deposit.</p>
	<p>NOTE TELLER (First Assistant and Eight Assistants) (Six Additional Clerks on A. M. Work)</p>	<p>Receives all cash remittances from out-of-town customers. Enters credits for same. Credits all collections paid received from the City Collection Department. Receives all express packages. Makes credits for the general ledger. Collects through City Collection Department all bills receivable.</p>
	<p>DISCOUNT CLERK (Two Assistants)</p>	<p>Times and registers all notes offered for discount by dealers and paper bought by the bank after being passed on by the officers. Holds this paper until maturity, when it is charged to the Note Teller. Holds, with record of due date, all bills receivable held as collateral to call or time loans. Has charge of and keeps record of past-due and suspense paper. Takes care that nothing in either of these accounts expires under the statute of limitations. Keeps the officers posted as to all these matters.</p>
	<p>GENERAL BOOKKEEPER (Assistant)</p>	<p>Keeps the general ledger of the bank. Makes up daily statement of the condition of the bank, also quarterly statement called for by the Comptroller of the Currency. Makes up various statistics for the use of the officers. Has charge, together with another clerk, of the securities in special deposit, and the collection of coupons from bonds left for safe-keeping.</p>
	<p>LOAN DEPARTMENT (Two Clerks)</p>	<p>Has charge of all time and call loans, whether of dealers or brokers. Examines all collateral. Watches quotations. Advises the officers when margins are running down. Reports on a slip each day the transactions of the previous day. Cuts off and turns over to the corresponding department all coupons due on securities left as collateral by dealers. Sends out notices for interest due on all loans. Sees that the same is promptly collected and Interest Account credited.</p>
	<p>COUPON CLERK (One Assistant)</p>	<p>Pays bonds and coupons. Receives and checks up all acknowledgments of out-of-town banks, bankers and other customers, of statements rendered and vouchers returned. Reconciles the statements from banks to whom collections are sent. Examines all error tickets. Makes proper entries in books showing the error to have been corrected. Initials same, and then hands to the proper officer for his inspection and initial.</p>
	<p>CHECK DESK (Check Clerk) (Twelve Assistants)</p>	<p>Has charge of making up exchanges for Clearing House in the morning. Receives the exchanges from the Clearing House. Examines and sorts checks for the bookkeepers. Charges same in debit cash books. Makes out account current for out-of-town banks and dealers. Charges in debit cash books all checks paid over the counter, received on deposit or through the mails. Enters total debit proof of all departments in the general debit cash book. Check clerk examines signatures of all checks and vouchers which are presented through the exchanges.</p>
	<p>GENERAL CLERK</p>	<p>Receives, sends and keeps record of all telegrams and cables. Transfer clerk for the transferring and issuing of all stock of the bank. Draws the drafts on out-of-town correspondents. Has entire charge of the clerks of the bank, keeping record of absentees, making provision for extra work, filling in vacancies caused by sickness or vacations in the different departments. Hears and settles all disputes between heads of departments and others, all subject to the approval and supervision of the Cashier.</p>
	<p>CORRESPONDING AND COLLECTION DESK (Corresponding Clerk) (First Assistant) (Twelve Assistants)</p>	<p>Writes the letters. Proves up and mails foreign checks and cash items received from the Receiving and Note Tellers. Registers all out-of-town collection items. Enters same in collection register. Acknowledges all letters received. Sorts and files all letters and advices and registered mail receipts. Forwards for other departments (excepting Paying Teller and check desk) all matters sent by express or registered mail. The collection ledgers are also included in this department. Receives all coupons for collection, turning same over to City Collection Department.</p>
	<p>CITY COLLECTION DEPARTMENT (Three Clerks)</p>	<p>Takes for collection all city items not collected through the Clearing House. Distributes same to the runners. Receives returns from the runners, proving their work of the day and turning over receipts and items not paid, to the Note Teller. Has charge of all cash and collection coupons, proving the cash coupons with the amount charged by the Note Teller, and the collection coupons by amount charged by the Corresponding Desk.</p>
	<p>MONEY DEPARTMENT (Two Permanent Clerks assisted in morning by all the clerks in Receiving Teller's Department below First Assistant)</p>	<p>Receipts for all money received from the Receiving and Note Tellers; also all money from city banks received by the Paying Teller. Counts the money. Assorts the mutilated money. Makes up packages for the Paying Teller. Carries the mutilated money for the Sub-Treasury at New York and the Treasury at Washington, D. C., until enough has accumulated to send in for redemption. This department is a sub-division of the Paying Teller's Desk.</p>
	<p>CITY BOOKKEEPERS (Four Balance Bookkeepers) (Four Individual Bookkeepers) (Four Assistants)</p>	<p>Accounts of all corporations, firms and individuals located in the City of New York.</p>
	<p>OUT-OF-TOWN BOOKKEEPERS (Three Balance Bookkeepers) (Three Individual Bookkeepers)</p>	<p>Divided into National Bank Ledger, State Banks and Bankers, and Country Ledger. Vouchers and statements for these ledgers are made up and proved daily by the Check Desk.</p>
	<p>CREDIT DEPARTMENT (Credit Man) (Two Assistants, one of them a Stenographer)</p>	<p>Obtains information in regard to credits and keeps record of the same.</p>
	<p>CASHIER'S CLERK (Assistant)</p>	<p>Arranges for the signatures of new accounts. Fills out new pass books for same. Keeps complete record on introduction card of new accounts; also detailed statement of first deposit. Takes charge of all orders for buying and selling bonds and stocks, and for the delivery of stocks and securities to banks, brokers and others, on instructions from dealers. Takes charge of all dividend and interest checks sent for the credit of depositors, making out the credit tickets and turning same over to the Note Teller. Fills up and files away powers of attorney and special instructions from dealers.</p>
	<p>MORNING MAIL (In charge of designated Clerk, with 35 junior clerks)</p>	<p>Opens mail. Takes out checks for morning additions, also cash items drawn on bankers and others; and turns over items for the Clearing House to the head of the Check Department at 9 A. M.</p>

CHART OF A NEW YORK BANK WITH LARGE GENERAL BUSINESS.

liquidation. With the redemption of issues of the closed bank would follow the issue of a like amount of notes of the absorbing association. As a matter of fact, this permissive feature in full has never been availed of by an association absorbing the business of one placed in liquidation, as it has been found more advantageous to deposit lawful money to redeem the notes of the liquidated bank and to simultaneously issue new notes of their own on bonds deposited. Consolidation can only be effected by pursuing one of the following methods:

First.—Without an increase of capital the directors of the absorbing bank may enter into a contract with the directors or agents of the liquidated association to purchase its assets, assume liabilities to depositors and other creditors, and to pay the value of assets purchased in excess of liabilities to depositors and other creditors, less any expenses incident to liquidation.

Second.—By increasing the capital stock of the absorbing bank to an amount equal to that of the liquidated bank, the additional shares may be sold to stockholders of the latter, consent thereto having been previously obtained from shareholders of the absorbing association. As the law is construed as requiring the payment of capital, original or on account of increase, in money, and not in "notes or like evidences of debt," the right to accept stock or assets representing stock of the closed bank, and to issue therefor certificates in the continuing bank, is not recognized. In every such case shareholders of the closed association are paid the value of their stock either in cash or cashier's check, the proceeds being available in payment of shares to which they may be entitled in the absorbing corporation. The preemptive right of shareholders to participate pro rata in an increase of capital is well recognized, and it is generally incorporated in the articles of association. In order to avoid possible litigation, the course usually pursued is to secure waivers of right to participate from shareholders of record. Provisions having thus been made for shareholders of the closed bank, the directors of the continuing bank are at liberty to contract for the purchase of assets and the assumption of liabilities to depositors and other creditors of the liquidated bank.

Third.—The remaining method, and one occasionally pursued, is to place the interested banks in voluntary liquidation, organized anew under a different corporate title, and acquire the business of the liquidating association. This method enables the incorporators to place the stock as they may determine.

Bank Administration

Assuming sufficient capital and business opportunities, the successful administration of any bank depends upon the character and ability of its directors, officers and employees. The administration of all banks, great and small—whether capitalized at \$25,000 or \$25,000,000—is scientifically identical. In studying bank administration attention should be centered upon the Board of Directors. The duties and responsibilities of directors are alike in all banks. The delegation and distribution of authority among officers depend upon circumstances, but when the center of authority is comprehended, details may be readily understood. Much has been said and written about the duty of directors to direct and the Comptroller of the Currency has done much to improve conditions in National banks. The by-laws of all banks should provide for the appointment of an examining committee; the appointment of a discount committee; the approval by the Board of Directors at monthly meetings or oftener of all loans and discounts; and the recording of such approval in permanent form. To what extent directors should participate in the details of administration depends largely upon local and personal conditions. The application of general principles of bank administration may perhaps best be dem-

onstrated by starting, for example, with a one-man bank, and following its gradual development into a metropolitan institution with up-to-date departments and necessary equipment of officers and clerks. In a one-man institution the banker must be his own cashier, teller, bookkeeper and messenger, receiving deposits, paying checks, loaning money, issuing drafts and making collections. The books usually used are some one of the many forms of journal, some forms of ledger, one book for registering notes and out-of-town items, a "tickler" and a book of drafts on depositories. A small part of the ledger may be ruled for general accounts, and the remainder as an individual ledger. The debit, credit and balance form is a favorite.

PROGRESSIVE GROWTH.—Presuming that the business of the one-man bank grows, the management would naturally take on a young man to act as messenger. He would begin work on books, notes, etc., under the supervision of his superior. Gradually he would work into the business until capable of running the bank in the short absence of the owner to his dinner or the postoffice, or while making short trips around town. The responsibility of discounting paper or granting favors would be withheld until after considerable experience had been had and sound judgment exhibited. Probably no change in bookkeeping methods would be required except that the work would fall into a natural division between the two men. When one man is responsible for one branch of work there is less liability of mistakes.

Business expands, detail work gets behind, and a second young man is taken—one who goes through the same initial experience. He is generally started on the individual ledger, as being simple work, requiring only correctness in posting, striking balances, care of vouchers, writing up pass books, etc. The other clerk runs the general books of the bank, its business having presumably reached such dignity that an up-to-date system is required, and takes full charge of the discounts in the way of timing, entering, filing and ticklerizing, draws all drafts, makes remittances for collections, and in fact is the general utility man of the institution. He knows all about the bank from top to bottom. The proprietor or cashier makes the loans, officiates as paying and receiving teller, writes letters and attends to duties of that nature. If the bank is finally incorporated, the general routine is the same. The Board of Directors should meet weekly to pass on discounts made by the cashier and to decide on the lines given to depositors. The system might now be changed to advantage by having the cashier, who is acting as teller, balance his books separately from the rest of the bank.

When the bank has reached the dignity of employing four men, the cashier will probably be occupied fully in looking after loans and meeting the customers of the bank. No particular change of the system of the bank is required, as the men move up a notch and a teller is appointed to do the teller's work which the cashier formerly did. The five-man bank would naturally consist of cashier, teller, individual bookkeeper, general bookkeeper and messenger. The teller would sell drafts on various depositories and make remittances in payment of collections at the close of business. The individual bookkeeper would be kept busy with his

WEALTH AND BANKING

work, and would require the assistance of the messenger in balancing pass books. The general bookkeeper should have charge of the remainder of the routine work assisted by the paying teller and the messenger. In a six-man bank there should be separate paying and receiving tellers. Each should balance his cash at night and the receiving teller should turn over to the paying teller the cash at the close of business each day. As neither will be kept busy, they should be given some of the work of the other departments. The addition of a seventh man would mean the addition of an individual bookkeeper. The employment of an eighth man would mean the readjustment of the work of the different departments to a certain extent. In fact, there is no fixed rule that can be laid down, as conditions vary in different towns. For example, in some places there is more active counter work than in others. In fact, the systematizing is generally a matter of judgment on the part of the cashier.

AUTHORITY AND RESPONSIBILITY.—Bank officers are chosen by the Board of Directors and actively superintend and direct its business affairs. The size of the bank, its location and the amount of business done determine the number of officers, although in every bank there are at least two, namely, a president and a cashier. In larger banks there are also a vice-president, and, sometimes, an assistant cashier. In the great city banks there are frequently two or more vice-presidents and assistant cashiers. In the administration of the affairs of any bank the duties and responsibilities of every officer and employe should be well defined. Responsibility is commensurate with authority, and officers and employes should be held to strict accountability for the satisfactory performance of their own specific duties—no more, no less. Those who do more than their duty are in a class by themselves. Ambition to do better and greater things, however, must not lead to the mistake of neglecting routine work. Banking is a business of infinite detail, and accuracy and promptness in minor matters are essential to any complete and logical system of administration. A successful banker, however, is composed of about one-fifth accountant, two-fifths lawyer, three-fifths political economist, and four-fifths gentlemen and scholar—total ten-fifths—double size. Any smaller person may be a pawnbroker or a promoter, but not a banker.

Suggestions to Students

Systematic education the world over consists of text-literature or lectures and collateral examinations. Text-literature and lectures are educational food. Examinations are the process of digestion. The mind as well as the body requires exercise, and the student who ducks or dodges examination is like the dyspeptic who bolts his food or the athlete who side-steps his training. The fact should be appreciated that examination is something more than measurement and certification. Students who realize that they are to be examined pay closer attention to their lessons. The process of examination also corrects omissions and misconception otherwise inevitable in any system of study. Examination is a fundamental necessity in practical education, and not a scholastic superfluity as some persons suppose or pretend to suppose. On the basis of such orthodox education the fol-

lowing specific suggestions to students are offered, applying to all the pamphlets in this course:

1. The pamphlets which constitute the Study Course of the American Institute of Banking have been prepared by the best authorities on practical banking and commercial law, experts who are actually engaged in the particular phase of banking which each pamphlet covers. Some are the product of several writers. The pamphlets are revised and improved, as occasion warrants, under the supervision of the Educational Director, subject to the approval of the Executive Council of the Institute.

2. The purpose of the Institute pamphlets is to supply specific information that will give definite direction to the line of study, and to inspire and develop in bank men the taste for inquiry and investigation into the intricacies, as well as the fundamental facts of banking and commercial law.

3. The pamphlets should be studied, not merely read. If the meaning of any sentence or paragraph is not fully comprehended, make a note of it. It is likely that additional light will be thrown on the question in another part of the text.

4. Before beginning to write answers to any of the exercises, read them all and decide whether or not a verbal answer could be given. If not, refer again to the text. Try not to copy the exact language of the pamphlets; if this is done the examiner cannot tell if the student understands what he is writing. The complete answer to any question is not necessarily limited to a single part of the text. The answers should be brief, but they should be thorough. If a careful study does not clear up any point, say so in the exercises submitted, leaving sufficient space in your paper for the examiner to write an explanation.

5. The Institute pamphlets are not expected to supply the knowledge that can be gained only by actual experience. It is assumed that the student will apply and test his abilities by the everyday problems that arise at his desk or window. The bank becomes his class room and laboratory. He is dealing with fact, as well as theory. Each is important, and while he may get the one by the slow process of experience, he can get the other only by diligent study.

6. Many of the subjects are illuminated by forms, both documentary and of accounting systems. In each case such forms are intended to be typical. It is especially important to realize this in preparing exercises in which answers require the use of bank forms. Compare the form used in your bank with the one shown in the text. Note the points of similarity and of difference. Satisfy yourself which is the better as applied to your needs.

7. When using the lesson pamphlets in class work, the subject matter should be read by the instructor and discussed freely by the students. It may be assumed that the collective knowledge of the class is sufficient to cover any knotty point that may arise, but should any question remain in doubt, it is suggested that it be assigned to one or two members of the class to be investigated and reported back to the class at the next meeting. The exercises at the end of each lesson pamphlet are prescribed as the basis of examination and discussion. Such exercises, however, should be elaborated in accordance with local circumstances.

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8. Correspondence chapter students should write their answers on one side of the paper, either in ink or on a typewriter, and submit to instructors whenever done. Be neat and accurate. The Institute Course has to do with neither spelling nor grammar, but the successful banker is concerned with both. Knowledge of English is not required of students in this course, but it is implied. Ask questions as often as necessary, but confine yourself to the subject matter at hand. Feel assured of a close relationship and personal interest between yourself and the instructors and examiners. Suggestions and criticisms on your work will be returned with your exercises. A mark of 100 per cent. does not imply that you are perfect. No man may claim any such distinction. It means that the examiner is satisfied you understand thoroughly the lesson you have submitted.

Exercises

In connection with "Wealth and Banking" the following exercises are prescribed:

1. What characteristics of human wants give rise to all economic activity and progress?
2. Distinguish between utility and value; value and price.
3. Define and explain the factors of production.
4. What are the advantages of the division of labor?
5. What is distribution and how is economic wealth distributed among land, labor and capital?
6. What is consumption and what effect has it on the variety and price of products?
7. What is exchange and what are its advantages?
8. What is money? What is meant by coinage?
9. What are the uses of money and upon what does money demand depend?
10. What are the kinds of money and what are the qualities of good money?
11. Define monometallism and bimetallism?
12. Explain the principle known as "Gresham's Law" and illustrate its application.
13. How is the Gold Standard maintained in the United States?
14. What is meant by legal tender?
15. Specify the kinds of money and currency in the United States?
16. Define bank notes and explain the difference between the banking principle and the currency principle.
17. Trace briefly the history of bank note issue of early and modern banks abroad and in the United States.
18. How are bank notes to be issued and secured under the Federal Reserve Act?
19. What are the main points of difference between State and National banks?
20. What circumstances and conditions must be taken into consideration in organizing a new bank?
21. What are the provisions of the National Bank Act as to capital—amount, time and manner of payment—and stockholders' liability?
22. Describe all the steps in the organization of a National bank, the preliminary forms prescribed and in whom authority is vested to determine if a bank may be organized.
23. What fundamental changes in banking, as conducted under the National Banking system, are provided by the Federal Reserve Act?
24. What qualifications are required by law for membership on the board of directors of a National Bank?
25. Discuss the respective duties and responsibilities of bank directors, officers and employees.

The Institute Study Course and the Federal Reserve Act

To be read before beginning work on chapters following.

In the study of banking in theory and practice no changes need be, nor, at the present time, can be made on account of the enactment of new legislation. The Federal Reserve Act should be studied as an effect rather than as a cause. It will change banking theory little if any, because correct banking theory which has produced the Act is not subject to any material changes. On the other hand, there is no question but that banking practice will gradually be revised where revision is necessary to conform to correct theory. That is one reason for the Federal Reserve Act. This transition will be gradual, partly because the Act specifically provides that it shall be so, and partly because the natural conservatism peculiar to banking does not permit of sudden changes. In any event, such changes in banking practice as will result can be studied and understood better from actual observation than from text books. Books are written to record the experience of other men and other times, thus adding to the knowledge secured through personal experience. It is obvious that no text book on banking can be changed to conform to new conditions until all the provisions of the Federal Reserve Act are worked out and all the functions of the reserve banks are in actual operation.

In the study of the Institute Course, these facts must be taken into consideration. If national banks assume any of the functions of trust companies or savings banks it does not alter the principles or methods under which these latter institutions operate. The same is to be said of clearing houses. Loans and investments, bank examinations, the extension of credit and all other phases of banking treated in this Course may be altered somewhat in form but not in principle. So far as bank reserves are concerned, the change in the percentage of reserve required is not the important change. The significant change is that reserves will hereafter be concentrated instead of being scattered; they may be used under certain restriction in case of need instead of being locked up in steel-bound vaults. The principle involved in maintaining and calculating reserves remains the same, and until the full three year period has elapsed the student in this Course may submit his exercise on bank reserves under either old or new requirements.

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Bank Accounting

THE purpose of bank accounting is to show (1) what assets are in the possession of the bank and (2) to whom these assets ultimately belong. Methods are good or bad in direct proportion to the accuracy and economy with which they accomplish this result. It is not desirable that all banks should use the same bookkeeping methods. If a farmer has a quarter of an acre of wheat, he will harvest it with a cradle or sickle, and thresh it with a flail. If he has a thousand acres, he will harvest and thresh it with machinery run by steam. Both methods are best according to respective circumstances.

The task for the student of banking methods is first to determine the essentials on which all banks agree, and then to show amplification of detail to meet differing conditions. The bank with an office force of two employees has the same organization as the bank with two hundred employees. The Transit Department, for example, may send cash items to one or to one thousand correspondent banks; after the letters are written the funds are charged on the general books to the account "Due from Banks" in the same manner. The Credit Department may be an elaborate system of reports and card indexes, or it may be a few wrinkles in the corner of the brain of the President. Any bank must have it in one shape or the other, and the principles are the same in all cases.

The primary essential of any system of accounting is that there must be a permanent and accurate record of all transactions. This record may be in bound books, or in books with removable leaves, or on cards, or on scraps of paper. The general principles of accounting are the same, however much details may differ. Moreover the record must be in such form that information required concerning the status of any account may be immediately available. A correct record of deposits received may be had by filing the deposit tickets. Such a record, however, is not adequate to meet all requirements. Prudence requires that the record be in such shape that evidence of deposit cannot be destroyed. Convenience requires that a double record be kept; namely, an alphabetical record of each day's deposits, and a chronological record of the deposits of each customer. These considerations render it necessary to make the record in one or more books.

A journal is a daily record of transactions. A ledger is a chronological record of the transactions in each account. A balance book is a statement of the net debit or credit balance of each of the ledger accounts. Any two of these books may be combined into one, or in fact all three of them may be combined into a book of the type of the Boston Ledger. The student of accounting methods, however, will better understand the division of the bank's work, if these three books are treated separately.

In a small bank, it can be conceived that a single set of books, a journal, a ledger, and a balance book, would serve for all accounts. As the bank grows, it becomes necessary to open a separate set of books for the individual accounts, and all of the individual accounts are removed from the original or general books, and in their place a single account

is carried, called individual deposits account, in which the only entries are total deposits and total checks for the day, as shown by the footings of the individual journal. Similarly, when a discount department is created, loans made and loans paid are itemized on the books of that department, and the totals carried forward to the general journal. The stock register and stock ledger are merely books in which Capital Stock account is itemized. The Cashier's Check registers, the Certificate of Deposit registers, and draft registers, parts of the general journal, serve to itemize credits which, if detailed in the general journal, would make that book too cumbersome for convenience and economy.

Thus we find that all of the books of the bank are parts of the general books, and the limit of this division of accounts is a system in which the general books carry only "key" accounts, all itemized entries being made in the books of the various departments, and the totals brought forward to the general books.

The bank of ten thousand dollars of deposits will not make the same division of accounts as the bank with ten millions. To secure economy of work, the bank whose depositors are largely commercial houses will use journals and ledgers different in form from those of the bank whose customers are largely individuals. It would be impractical and unnecessary in this lesson pamphlet to describe in detail all the forms and books that are used in the larger banks of the cities. Their peculiar needs often require hundreds of loose-leaf and bound volumes of every description, while in the small interior banks are to be found forms which are peculiar to that particular institution and have to do with a local condition of business. In all banks of deposit, however, the important records, such as ledgers, tellers' settlements, collection registers, cash and reserve accounting are virtually uniform, at least insofar as purpose is concerned, and we shall show the student the methods which are in use in the majority of national banks. It is in the statement of condition, or balance-book that the accounting systems of all banks are brought to the greatest degree of uniformity.

STATEMENTS OF CONDITION.—The Statement of Condition, commonly called the Daily Statement, is a summary of the resources and liabilities, a trial balance of the general ledger. It is needed for two purposes, namely:

- (1) To show that all resources and liabilities have been duly accounted for.
- (2) For the guidance of the executive officers in the transaction of business on the following day.

For statistical purposes, and for convenience in the examination of banks, the Comptroller of the Currency has prescribed the form to be used by all national banks in their reports to the Government. As this form is suitable for any bank, national, state, or private, we shall use it as our outline in the development of a system for handling the work of a bank:

RESOURCES.

1. Loans and Discounts.
2. Overdrafts.
3. U. S. Bonds to secure Circulation (par value).

GENERAL LEDGER STATEMENT

DR. At the Close of Business, on the day of 1910. CR.

RESOURCES	1910		1909		LIABILITIES.	1910		1909	
	DOLLARS	CTS.	DOLLARS	CTS.		DOLLARS	CTS.	DOLLARS	CTS.
Loans and Discounts,					Capital,	10 000 000		10 000 000	
Overdrafts,					Surplus,	5 000 000		5 000 000	
U. S. Bonds to Secure Circulation,					Undivided Profits,				
U. S. Bonds to Secure Deposits,					Circulation,				
U. S. Bonds on Hand,									
Stocks, Securities, Etc.,									
Banking House,									
Other Bonds, to secure U. S. Deposits,									
Due from other National Banks,					Individual Deposits,				
Due from State Banks and Bankers,					Demand Certificates,				
					Time Certificates,				
Checks and Other Cash Items,					Cashier's Checks,				
Exchanges for Clearing House,									
Bills of Other Banks,					Due to Nat'l Banks,				
Fractional Currency, Nickels and Cents,					Due to State Banks & Bankers,				
Gold Coin,									
Gold Certificates,					United States Deposits,				
Silver Dollars,					Reserved for Taxes,				
Silver Certificates,					Municipal Bond Account,				
Fractional Silver,					U. S. Bond Account,				
Legal Tender Notes,					Employees Pension Fund,				
Redemption Fund with U. S. Treasurer,									
Due from U. S. Treas. (other than Redemption Fund).									
TOTAL.....					TOTAL.....				

Reserve Required, \$.....	Reserve Per Cent.,.....
Reserve on Hand, \$.....	Clearing House, \$.....
	1909
Reserve Required, \$.....	Reserve Per Cent.,.....
Reserve on Hand, \$.....	Clearing House, \$.....

BANK ACCOUNTING

4. U. S. Bonds to secure U. S. Deposits (par value).
5. Other Bonds to secure U. S. Deposits.
6. U. S. Bonds on hand (par value).
7. Premium on bonds for Circulation; Premium on other U. S. Bonds.
8. Bonds, Securities, etc., including Premium on same.
9. Banking House; Furniture and Fixtures.
10. Other Real Estate Owned.
11. Due from National Banks (not approved Reserve Agents).
12. Due from State and Private Banks and Bankers, Trust Companies, and Savings Banks.
13. Due from approved Reserve Agents.
14. Checks and other Cash Items.
15. Exchange for Clearing House.
16. Notes of other National Banks.
17. Fractional Paper Currency, Nickels, and Cents.
18. Lawful Money Reserve in Bank. (a) Specie; viz.: Gold Coin, Gold Certificates, Gold Certificates payable to order, Clearing House Certificates, Silver Dollars, Silver Certificates, Fractional Silver Coin. (b) Legal Tender Notes.
19. Redemption Fund with U. S. Treasurer (not more than 5% on Circulation).
20. Due from U. S. Treasurer.

LIABILITIES.

1. Capital Stock paid in.
2. Surplus Fund.
3. Undivided Profits (including sums, if any, set aside for special purposes, except reserve for taxes).
4. Circulating notes secured by U. S. Bonds. (Less amount on hand and in Treasury for redemption or in transit.)
5. State Bank Circulation outstanding.
6. Due to National Banks (not approved Reserve Agents).
7. Due to State and Private Banks and Bankers.
8. Due to Trust Companies and Savings Banks.
9. Due to approved Reserve Agents.
10. Dividends unpaid.
11. Individual Deposits subject to check.
12. Savings Deposits.
13. Demand Certificates of Deposit.
14. Time Certificates of Deposit.
15. Certified Checks.
16. Cashiers' Checks outstanding.
17. United States Deposits.
18. Deposits of U. S. Disbursing Officers.
19. Bonds Borrowed.
20. Notes and Bills rediscounted.
21. Bills Payable, including Certificates of Deposit for money borrowed.
22. Reserved for Taxes.
23. Liabilities other than those stated.

An explanation of these various items in the statement is made to show the necessity for the different forms which go to make up the bank's set of books. The accounts of the general ledger conform as closely as possible to the items in the statement of condition. The usual exceptions are: (1) No overdraft account is carried. (2) Accounts due from other banks are carried separately in the general ledger, being combined with transit accounts and bank overdrafts to show the amounts due from banks in the daily statement. (3) Items 14 to 18 inclusive (Resources), are combined in the Ledger into a single Cash account. (4) In smaller banks the various items due to banks (Liabilities, items 6 to 9, inclusive), are separated into the original accounts.

RESOURCES.—The accounts of resources are as follows:

"Loans and Discounts" (Item 1).—All entries made in

this account are received from the discount department. In some banks a separate journal entry is made for each loan made or paid, total debits and total credits only being posted in the ledger. The usual practice, especially in large banks, is for the discount department to make a single debit each day for total loans made, and a single credit each day for total loans paid. When desired, this account may be divided into six ledger accounts to correspond with the classification required by the Comptroller of the Currency in the Report of Condition, as follows: A. Demand loans, one or more names. B. Demand loans, secured by stocks, etc. C. Time loans, two or more names. D. Time loans, single name. E. Time loans, secured by stocks. F. Secured by mortgages. Loans and discounts (usually handled by an officer of the bank), are such an essential part of every bank that the records incidental to this account are treated in a separate pamphlet in the Study Course

"Overdrafts" (Item 2).—No overdraft account is carried on the general ledger, as the debit entry causing the overdraft must be written up in an individual account. The general bookkeeper has no knowledge of what overdrafts there are until he receives the individual bookkeeper's daily report showing total deposits received, total checks paid, total credit balances, total overdrafts, and net balances. As the general ledger account individual deposits represents net individual deposits (individual balances less overdrafts), and the daily statement must show total liability to depositors, the amount of overdrafts must be shown on the resources side of the statement, and individual deposits as shown by the general ledger must be increased by the same amount.

"Bond Accounts."—"U. S. bonds to secure circulation" (Item 3, Resources), "U. S. bonds to secure U. S. deposits" (Item 4), "Other bonds to secure U. S. deposits" (Item 5), "U. S. bonds on hand" (Item 6), "Premium on U. S. bonds" (Item 7), "Bonds, securities, etc." (Item 8). United States bonds are carried on the books at par, all premiums being carried in Premium account. All other bonds and other securities are carried at cost or at market value. The account, Stocks, Securities, etc., includes bonds, stocks, judgments, and such other claims as may not properly be classed as loans and discounts. While the various securities comprising this item of resources are grouped into a single total in the Statement, they are subdivided in the General Ledger (or if transactions are numerous, in the Bond Ledger), so that a separate account is kept for each issue of securities owned. Accrued interest on bonds purchaser should be charged to profit account on the date purchased; or, if carried in the bond or premium account as a part of the premium must be credited back at the first ensuing interest period.

"Due From Banks."—"Due from national banks, not reserve agents" (Item 11, Resources), "Due from state and private banks and bankers" (Item 12), "Due from approved reserve agents" (Item 13). These items of the daily statement include: (a) Funds on deposit with other banks subject to check. (b) Cash items in process of collection sent out by the Transit Department to banking institutions in other cities for collection and remittance. (c) Overdrafts of banks.

BANK ACCOUNTING

Balances due from other banks, accounts kept for the purpose of drawing drafts and collecting out-of-town checks, commonly called General Bank Accounts, are usually kept separately on the General Books, but in large banks may be kept to advantage in a separate set of books.

Remittances of cash items are charged on the date sent out, from a debit memorandum received from the Transit Department. Currency shipments to these banks are charged on the date made, from debit tickets received from the head teller. Collection items are charged by the collection teller on receipt of advice of credit. Drafts drawn are credited in total to each account by the exchange teller. Transfer of funds and telegraphic orders for the payment of funds are credited on the date ordered from credit tickets received from the tellers. Currency shipments ordered from reserve agents and other correspondent banks on credit tickets received from the head teller on the date ordered. All out-of-town checks are charged by the tellers to the Transit Department. This department has no checks or other items on hand at the close of business, and must turn over to the bookkeepers debits against general and bank accounts equal to the amount charged to the department on the head teller's summary. Some of the items are sent to reserve agents and other banks with whom accounts are kept in collection centers, and are charged to those accounts on the General Books on the date sent out. Other items are sent to country banks keeping accounts with the Bank, and are charged direct to these accounts on the date sent out. Others are sent for remittance (when paid, or on receipt), and are charged to the accounts Transit National and Transit State, according to whether sent to national or state banks. Accordingly, when all items have been sent out, a debit memorandum is sent to the bookkeeper for bank accounts, showing the amount to be charged to each bank account on his books, and another memorandum to the general bookkeeper, showing the amounts to be charged to each general bank account and to Transit National and Transit State. The totals of these debits are included by the head teller in the amounts charged to the various bookkeepers, and the temporary charge against Transit Department on the Tellers' Summary is canceled by a corresponding credit.

Overdrafts of banks are not regarded as overdrafts, but as funds due from banks. Where the accounts due to banks are carried on the general books, any overdraft is included in the amount due from banks in the daily statement. If, however, the accounts due to banks are carried in a separate set of books, the general ledger account due to banks represents net bank deposits (bank deposits less overdrafts), hence in the daily statement the amounts due from banks and due to banks as shown by the ledger must be increased by the amount of such overdrafts.

"Checks and Other Cash Items" (Item 14).—Under this head are included all checks on non-clearing banks, such unpaid items as cannot be charged back to the account of the depositor, and any other items received as cash, which must be collected by messenger on the succeeding business day. Such items are "held in the cash" by the head teller, and are reported by him to the general bookkeeper in his daily general cash report. Such transactions are described more fully in the text devoted to the teller's duties.

"Exchanges for Clearing House" (Item 15).—In small banks, clearing house items are handled by the head teller; in large banks by the Clearing House Department. In either case the procedure is the same; the checks are assorted according to the banks on which drawn, listed by machine (duplicate lists being retained), and held over until clearing time next day as a part of the head teller's cash, and so reported in his cash report. Where no clearing house exists, checks on other banks in the same town are included under the previous heading.

"Currency and Coin" (Items 16, 17 and 18).—These items, together with items 14 and 15, are itemized in the daily statement from the teller's cash report, the total of which must balance with the general ledger cash account. These items are especially important, since it is from these totals that the amount of reserve is computed. A complete explanation is made elsewhere in this pamphlet.

"Five Per Cent. Redemption Fund" (Item 19).—Before issuing currency, each national bank must deposit with the United States Treasurer at Washington an amount equal to five per cent. of the amount of National Currency applied for. The notes issued by the bank are, in course of time, presented to the United States Treasurer for redemption, and as redeemed, are charged to this fund. On receipt of an advice from the Comptroller of the Currency that a certain amount of these notes has been redeemed (in other words, that such amount of circulation has been temporarily retired), this amount must be charged to Circulation account and credited to redemption fund. Deposit must be made at once with the Treasurer of the United States to restore this fund, and when such remittance is made, the amount is charged to Redemption Fund.

"Due from United States Treasurer, Other Than Redemption Fund" (Item 20).—This account is a "transit account" for currency (mutilated or otherwise), sent to the United States Treasurer for redemption. When sent out it is charged to this account, on a debit ticket from the teller making the shipment, and when returns are received, the account is credited.

LIABILITIES—Liabilities are of two general classes: 1. Liabilities to the public, deposits, circulation, etc. 2. Liabilities to stockholders, including Capital, Surplus and Undivided Profits. Liability accounts are as follows:

"Capital Stock" (Item 1).—Subscription to Capital Stock must be paid in cash, and the first entries on the books of any Bank or other corporation are the credit to capital stock and the corresponding debit to cash.

"Surplus Fund" (Item 2).—Profits may be paid out in dividends, or retained in profit account, or, when it seems desirable to increase the working capital by the development of a permanent fund, a surplus fund is created by setting aside some portion of the undivided profits. In the case of some banks, a surplus fund is created at the time of organization by stock subscriptions, at more than par. The purpose of the surplus fund is twofold: To provide an increased working capital, and to establish a fund from which possible losses may be sustained without impairing capital. It is provided in the National Bank Act that national banks shall set aside a certain amount of profits to create a surplus fund before a dividend may be declared.

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"Undivided Profits" (Item 3).—The chief sources of a Bank's profits are: (1) Interest on loans. (2) Interest on bonds and securities owned. (3) Interest on balances due from other banks. (4) Exchange charged on drafts sold. (5) Exchange charged on out-of-town items received. The chief expenditures are: (1) Interest on deposits. (2) Interest on bills payable. (3) Exchange paid on drafts bought. (4) Exchange paid to correspondents for collecting out-of-town items. (5) Duty on circulation. (6) Taxes. (7) Salaries, rent, stationary and other running expenses. (8) Bad debts.

Earnings are credited to profit account on the date received (not necessarily on the date earned), and expenditures are charged on the date paid. In the case of notes discounted, the interest is credited to profit account on the date of discount, before any part of it has been earned. (A single exception to this rule is observed in most large banks; from time to time during the year sums are set aside from Undivided Profits account to create reserves for taxes for the current year, and for interest accrued, but not yet due.)

The balance shown daily in this account is the difference between earnings received and expenses paid.

"Circulating Notes Secured by United States Bonds" (Item 4).—To issue circulating notes, national banks are required to deposit with the United States Treasurer at Washington, United States Bonds of the par value of the amount of currency desired. On the deposit of such bonds, notes are delivered to the issuing bank by the Comptroller of the Currency. After these notes have been signed by the President and Cashier (either with pen, pencil, rubber stamp or by printing fac-simile signatures), they are given to the head teller for issuance, and paid out by the teller in the course of business. Theoretically, a bank is not permitted to count as cash on hand its own circulating notes. In practice banks charge cash and credit circulation when the notes are delivered to the paying teller, on the theory that they will be paid out by him in the course of the day. Any small amount on hand at the close of the day's business, is counted as "notes of other national banks."

As previously explained, no receipt of advice from the Comptroller of the Currency that notes have been retired by redemption at Washington, circulation account is charged with the amount and 5% fund credited. On the receipt of currency from Washington to take the place of that retired, cash is charged and circulation again credited.

Circulating notes secured by 2% bonds are subject to a semi-annual duty at the rate of $\frac{1}{2}$ of 1% per annum; circulation secured by other United States bonds at the rate of 1% per annum.

"State Bank Circulation Outstanding" (Item 5).—All issues of currency except in accordance with the National Bank Act are subject to an annual tax of 10%. As a result, very few banks today have any notes outstanding, except those secured by U. S. bonds.

"Due to Banks."—"Due to national banks, not reserve agents" (Item 6); "Due to state and private banks and bankers" (Item 7); "Due to trust companies and savings banks" (Item 8); "Due to approved reserve agents" (Item 9). These items include all deposits of other banks, whether subject to check, or for stated time, or subject to stated notice, except deposits for which certificates of deposit have

been issued. Interest is generally paid on the deposits of other banks, and for many years the prevailing rate in reserve cities has been 2%.

Overdrafts of the accounts of banks are not regarded as overdrafts, but as funds "due from other banks." The general ledger account "due to banks" shows net balances less BANK overdrafts. Hence, to show total deposit liability in the daily statement, the amounts due TO banks must be increased by the amount of bank overdrafts, and the amounts due FROM banks increased accordingly.

"Dividends Unpaid" (Item 10).—On payment of a dividend, the full amount of the dividend is charged to Undivided Profits account, and credited to Dividend account. Checks are then issued against this balance and mailed or delivered to the stockholders. On payment, these checks are charged to Dividend account.

"Individual Deposits Subject to Check (Item 11).—The account Individual Deposits on the general ledger, shows NET individual deposits, meaning individual deposits less overdrafts. This item in the daily statement shows gross individual deposits, as the statement must show total liabilities. An overdraft is not an offset to deposits. It is a resource of the nature of a loan, and in the daily statement this resource must be itemized and the liability item individual deposits must show the total liability for individual deposits without any offsets. It is not possible for the general bookkeeper, having before him the daily statement of the previous day and the total debits and credits of the current date, to determine the amount of overdrafts and individual deposits. He can, however, determine deposits less overdrafts, and this he does in the general ledger. Later, when he receives from the individual bookkeeper a memorandum showing the amount of overdrafts, he enters that amount in the daily statement, and increases his ledger balance in deposit account by that amount for the daily statement. Certain characteristics in connection with the work of the individual ledger bookkeeper are described under a separate heading.

"Savings Deposits" (Item 12).—While receiving savings deposits may not technically be a function of a commercial bank, many banks doing a commercial banking business, and nearly all trust companies, receive savings deposits. In a few States, recent legislation requires that savings deposits must be kept separate from commercial deposits and must be invested in accordance with the laws regulating the deposits of savings banks.

The National Bank Act makes no provision for the establishment of savings departments. However, the Comptroller of the Currency permits National Banks to receive savings deposits, and pay interest on them, but does not permit the segregation of such funds for investment purposes.

Savings accounts are carried on the general books in the same manner as the accounts of individual depositors. At the close of the day's business the totals, deposits received and withdrawal checks paid, are entered in the account from a memorandum received from the Savings teller, confirmed by the Savings bookkeeper.

"Certificates of Deposit."—"Demand Certificates of Deposit" (Item 13), "Time Certificates of Deposit" (Item 14). A certificate of deposit is a written instrument issued by a bank, stating that the depositor has to his credit with the

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fixed time, with or without interest, on surrender of the instrument itself properly endorsed.

Demand Certificates usually bear no interest, or bear interest at the rate allowed on deposits subject to check.

Time Certificates usually bear interest at the rate allowed on savings deposits and are not paid until maturity.

"Certified Checks" (Item 15).—A certified check is a check of which the payment is guaranteed by the Bank on which it is drawn. This guarantee is effected by stamping or writing on the check, usually across the face of it, "Certified," or "Accepted," or "Good when properly endorsed," or "Accepted payable at the ——— bank," together with the name of the certifying bank, followed by the signature of the Cashier or some other person authorized to sign for the Bank.

A check certified is charged to the drawer on the date of certification by means of a charge ticket, and the amount credited to the account "Certified Checks" on the general books. When paid, the check is charged by the general bookkeeper to this account, and the canceled voucher is substituted for the charge ticket in the check files. Certification is usually one of the paying teller's duties and is discussed more fully under the heading "Paying Teller."

"Cashier's Checks Outstanding" (Item 16).—A cashier's check is a draft issued by a BANK drawn on itself, payable on demand, on surrender of the instrument properly endorsed. Cashier's checks are largely used in payments of funds between banks in the same city, in order to avoid handling currency.

Cashier's checks issued are registered in a book provided for that purpose, a record being made of the date of issue, purchaser, payee, number, and amount. At the close of each day the total amount issued is credited to Cashier's checks account on the general books, and when paid the checks are charged to this account in the General Ledger.

"United States Deposits. Deposits of United States Disbursing Offices" (Items 17 and 18).—Any national banking association may be designated by the United States Treasurer, to be a depository of public funds, and receive deposits from the United States Treasurer and from financial agents of the Government.

In order to secure Government deposits, United States or other approved bonds must be deposited with the Treasurer of the United States to the amount of the maximum deposit to be held. Deposits received in excess of this amount must be forwarded daily to the nearest sub-treasury, receipts for such re-deposits being forwarded to the U. S. Treasurer.

"Bonds Borrowed" (Item 19).—Bonds deposited with the U. S. Treasurer to secure circulation or United States deposits, may be owned outright by the Bank or may be borrowed for such purpose. Owners of United States Bonds may at any time be found who are willing to lend bonds to responsible banks in consideration of a commission or fee for their use, usually one, one and one-half or two per cent. per annum on the face value of the bonds loaned. Usually a deposit of securities of some sort is made by the borrower to insure the safe return of the bonds borrowed.

Bonds thus borrowed are credited to the account of "Bonds Borrowed" and the account "Bonds to secure Circulation," or "Bonds to secure United States Deposits," is

debited a like amount. If Government Bonds, they must first be registered in the name of the bank depositing them.

"Rediscounts and Bills payable."—"Notes and bills rediscounted" (Item 20).—"Bills payable, including certificates of deposit for money borrowed" (Item 21).—Banks desiring to replenish reserves or increase loanable funds on short notice may do so by any of four methods:

A. By calling demand loans. Calling demand loans, increases cash or due from banks, thus increasing reserves, or making funds available for other loans.

B. By the sale of notes or bonds. In the sale of notes they are endorsed "without recourse," and the bank is under no liability for their payment. Accordingly, "Bills Receivable" is credited with the amount of notes sold, and the transaction is ended as far as the bank is concerned.

C. By the rediscount of notes. If the notes are transferred by means of an ordinary endorsement, the bank assumes liability for their payment, and this liability must be shown on the books and in the published statement, as "Notes and Bills Rediscounted." Hence the notes are still carried in "Loans and Discounts" account as an asset, and if rediscounted for cash, "Cash" is debited and "Notes and Bills Rediscounted" is credited with the amount of the transaction. Banks rediscounting paper are usually required to secure the approval of the directors by means of a resolution authorizing such rediscount. Notes rediscounted may be collected directly by the rediscounting bank, or may be taken up by the original owner on or before maturity.

D. By the issue of its own bills payable (usually secured by a deposit of collateral, bonds or notes). It is sometimes desirable to borrow money by issuance of the obligation of the bank. This may be in the form of a note or of a this heading. A resolution of the Board of Directors should accompany each bank loan offered for discount.

"Reserved for Taxes" (Item 22).—It is customary for banks to set aside funds from time to time during the year out of Undivided Profits Account, in anticipation of taxes to be paid annually. This may be done monthly, quarterly, or at such times as the Board of Directors see fit, the object being to have at hand at the time for paying taxes a fund to certificate of deposit, but in either case must be shown under permit the payment of taxes without showing a serious reduction in Profit account.

"Liabilities Other Than Those Stated" (Item 23).—Any other liabilities, such as Pension Fund for Employees, or Reserves for Interest accrued, but not due, are carried in this account. In some banks discount is entered in a special "Discount" account, and is carried under this heading to profit account as it accrues.

CASH AND RESERVES.—In a report of the condition of a national bank to the Comptroller of the Currency, the heading "Cash and Cash Reserve" includes all coins, currency in the bank's vaults and tills and clearing house certificates. The cash of a bank consists of "Bills of other National Banks," "Fractional paper currency, nickels and cents," "Gold Coin," "Gold certificates," "Gold certificates payable to order," "Gold Clearing House Certificates," "Silver dollars," "Silver certificates," "Silver fractional coin," "Legal tender notes." In computing the reserve there are in addition these items to be taken into consideration:

FORM OF DISTRIBUTION SHEET

[illegible]

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"Checks and other cash items," "Exchanges for the Clearing House," "United States Treasurer 5% Redemption Fund," and "Amount due from United States Treasurer."

The "Reserve" of a bank is that part of its funds which is not loaned or put out for discount. The requirements of the National Bank Act as to the percentage of cash reserve to be carried vary in accordance with the three classes into which the cities of the United States are divided. National banks located in the Central Reserve cities, New York, Chicago and St. Louis, must have on hand at all times at least 25% of their net deposits in legal reserve money. National banks located in Reserve cities, must have on hand at all times at least 12½% of their net deposits in legal reserve money, and National banks located outside of the Reserve cities shall have on hand at all times at least 6% of their net deposits in legal reserve money. These percentages are the minimum for banks operating under the National Bank Act. Of course there is nothing in this act to prevent a bank carrying a larger reserve than required. This is for the officials of any bank to decide, and it depends upon local conditions, which vary with the different seasons and their demands for cash. A bank in one locality may have calls at certain periods of a considerable amount of cash, while one in another part of the same State or county will be free from such demands, and vice versa. Thus you will find cash reserves "fat" and "lean."

The reserve of a bank is based on the net deposits. This is obtained by deducting the amount due from National Banks (not approved reserve agents) and the amount due from State banks and bankers, from the total deposits exclusive of government deposits. Banks in the central reserve cities must have on hand 25% of the amount in legal reserve money; banks in the Reserve cities 25%, one-half of which must be in legal reserve money, but the other half may be on deposit (subject to check) with approved reserve agents; banks outside of the Reserve cities 15%, with two-fifths of it in legal reserve money, and three-fifths of it on deposit (subject to check) with approved reserve agents.

Banks differ as to ways of figuring their reserves. Some deduct the amount of "Checks and other cash items," and "Exchanges for the Clearing House," from the net deposits, using that amount as a basis of deposits, while others add them to cash and amount due from approved reserve agents, making that their basis of reserve. Elsewhere in this lesson pamphlet is the form furnished by the Comptroller of the Currency for the computation of reserves by national banks in Reserve and Central Reserve cities. A similar form corresponding with the difference in reserve requirements is provided for national banks in other than Reserve and Central Reserve cities. Any bank may carry its entire reserve in cash if it so desires, but it may not make up a deficiency in the amount of legal reserve money by an excess on deposit with reserve agents. Legal reserve money includes all, excepting "Bills of other National banks" previously described as the cash of a bank. In cities having three or more banks the operation of maintaining the proper ratio between cash and other reserve is quite simple. If the cash reserve is short and the demand for currency continues, there is the possibility that some of the other banks in any city may have a surplus of currency and will be willing to

help out by selling the currency for checks on New York, Chicago, St. Louis, or some other city that acts as a reserve agent. A transaction of this kind saves express charges, and doubly so if any other institution is shipping its currency to its reserve agent. But if the demand for currency is general with all local banks, then the only recourse is to put in an order on some reserve agent for a shipment of currency. If the conditions are reversed, and any bank is carrying a larger cash reserve than required, and with the likelihood of its continuing, it may be able to find one of its neighbors that will buy currency for exchange which will count as reserve, and if this fails, then the bank will have to resort to shipping money to its reserve agent. Bankers are generally ready to reciprocate and help one another when such occasions arise.

The reserve cash is kept in a separate compartment within the cash vault, and, particularly in the larger banks, should be under the control and custody of at least two officers. A complete record is kept, both as to the kind and amount of each denomination, gold, gold certificates, silver certificates, legal tenders, clearing house certificates, etc. In large city banks where the reserve is kept in more than one of such compartments and the bank has several active officers, there are two combinations on each chest, so that not one combination only, but both must be used to open it. Two or three of the officers have one combination and another two or three have the other, thus making it necessary to have at least two officers to open any of the reserve chests. The cash reserve is seldom disturbed except when counted by a National Bank Examiner or a committee appointed among the members of the Board of Directors when making their annual examination, but nevertheless it is the best policy to be prepared for any emergency that may arise.

In a small country bank there is usually a teller, a bookkeeper and a cashier. The latter gives part of his time to the work of both the teller and the bookkeeper, but although the office of the cashier does not include such work as the bank increases in size, yet all bank accounting may be roughly grouped into these two general divisions no matter how large may be the institution. The business of a bank is to receive deposits and make loans. These deposits are made up of cash, currency, gold and silver, and checks and drafts on other banks located in the same city and every other city and State of the Union and elsewhere. Items numbered 14 to 18, inclusive, in the resources column of the Report of Condition, including "Checks and other cash items," "Exchanges for Clearing House," "Notes of other National banks," "Fractional paper currency, Nickels and Cents," and "Specie and Legal Tender Notes," represent funds in the hands of the teller at the close of business and are carried in the General Ledger "Cash" account. The teller is charged with the safe keeping of these funds, and to make up the Daily Statement, he accounts for them to the general bookkeeper. In a large bank, he may or may not handle the first two items named, cash items and clearing house items, but as he is responsible for the ultimate collection of them, and receives payment for them, they are regarded as being in his possession. Drafts with bill-lading or securities attached, called cash collections, which have

RECEIVING TELLER'S SETTLEMENT SHEET

Deposits							
Banks							
Exchange, Deposits, Etc.							
" Draft Clerk							
" General Bookkeeper							
Safe Deposit Department							
Foreign Department							
Interest, Discount Clerk							
" Note Teller							
" General Bookkeeper							
Paying Teller							
Note Teller							
Draft Clerk							
General Bookkeeper							
Charged to Mailing Department							
Md., Del. and D. C. Items							
Miscellaneous							
Pa., N. J., N. Y., N. E. and Can. "							
CITIZENS, VIZ.							
Individual Ledgers							
Foreign "							
General "							
Paying Teller							
" "							
Cash (to Paying Teller)				Balance			
Clearing House (to Paying Teller)							
Run Items (to Note Teller)							
						Over	
						Short	

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been received in the mail, are usually handled by the collection department, or more properly speaking, the collection teller.

A small bank has but one teller, and all transactions with customers pass through his hands. As the bank grows and additional tellers are provided, a division of the work is made in such a manner as to secure economy for the bank and convenience for the customers. One teller pays checks, another receives deposits, another sells exchange and issues certificates of deposit, another makes loans and receives payment of interest and principal. All of these tellers handle cash and checks, accounting to the head teller at the close of business for all of the transactions of the day. Thus, as all of the books are parts of the general books, all of the tellers are merely assistants to the head teller, and no matter how many divisions of tellers there may be, the bank has only one cash account, for which the head teller is responsible.

Some banks are trying a new plan as to the receiving and paying desks. Instead of having separate windows for receiving and paying, they have the receiving and paying done at one window. Thus a teller would be the receiving teller and the paying teller for "Smith, Jones & Co.," and all the transactions incident to both of these departments would be handled by one teller in one cage instead of by two tellers in two separate cages. Then, instead of having so many receiving tellers and so many paying tellers, they would all be receiving and paying tellers.

Each teller keeps a "Teller's Cash Book," in which he records the amount of each item passing through his hands. This book is ruled with columns, one for each bookkeeper or clerk who receives items from him. Checks on individual accounts are charged to the various individual bookkeepers. Checks on bank accounts are charged to the bookkeepers for bank accounts. Cashier's Checks and certificates paid, and all debits against the general accounts are charged to the general bookkeeper. Exchanges for the clearing house, turned over to the Clearing House Department (or in small banks, to the head teller), and out-of-town checks, sent to the Transit Department, are listed in separate columns. The Transit Department undertakes to collect all checks drawn on out-of-town points. Some of these items are sent to correspondents for credit, and are charged to those correspondents on the general books or on the books for bank accounts on the date sent out. Others are sent out for remittance when paid and are charged to a remittance account on the general books. This account is generally called transit account, and for convenience in making up a report of condition as required by the Comptroller, is sometimes divided in a national bank; items sent to national banks for remittance being charged to National Transit, and items sent to state and private banks charged to State Transit. These accounts are credited with the returns when payment is received for such items.

In the same manner, all credit entries, deposits received, drafts drawn on correspondents, cashier's checks issued, notes paid, etc., are credited to the bookkeepers on whose books the several accounts are kept.

At the close of the day each teller turns over to the head teller all cash and cash items in his hands, and renders to him a memorandum of the footings of the various columns

of his cash book. From these memoranda the head teller makes up a summary of the business of the day, showing the total amounts charged and credited to each bookkeeper. Each bookkeeper must balance his debits and credits with the figures made up by the head teller.

To balance the general cash (including clearing house items and cash items held over), the head teller adds to the cash of the previous day the total credits (deposits received, etc.), as shown by the summary, and deducts total debits (checks paid, etc.). When the cash balances, he sends to the general bookkeeper a memorandum for the daily statement showing the amount on hand of "Checks and Other Cash Items," "Exchanges for the Clearing House," "Notes of Other National Banks," "Fractional Paper Currency, Nickels and Cents," and the various items of lawful money reserve as classified by the Comptroller of the Currency in the prescribed form for the report of condition.

RECEIVING TELLER'S WORK.—The receiving teller's desk is the place from which all checks and cash are distributed to the various departments of any bank. Before the time of opening for business, the receiving teller or tellers are busy checking off the deposits that have been sent to the bank through the mail by the depositors, and if the mail department is swamped with work the receivers lend a helping hand. The receiving department has no cash when the time for opening comes, as the cash of the previous day has been turned over to the paying department the night before. A record, or what is called a proof, is kept of the work, as in every department of the bank, and cash and checks are balanced separately. The receiver usually has an assistant in the cage with him. The teller handles the currency or cash, and as many of the checks as possible, while his assistant has charge of the proof and checks of the larger deposits, thus enabling the teller to give his attention to his customers at the window and on busy days keep the line moving. To the receiving teller falls the task of instructing or "educating" the bank's customers in the proper methods of preparing the deposit ticket, endorsing checks and other matters bearing on the relations between the bank and its depositors. This is an important duty, since much of the accounting may be simplified by a slight amount of co-operation on the part of the depositor. Then, too, the teller must be alert as to counterfeits or endorsements on checks, and keep posted as to the points that cost the bank to collect, so he may know how much to charge the customer when he accepts the checks on such cities or towns. A careful teller can easily save his salary by using diligence in collecting fair exchange prices. He should be pleasant in manner, of good address, tactful and possessing a thorough knowledge of banking.

In banks where there is no currency department the receiving teller does this work, sorting the currency and strapping it in packages of various denominations suitable for the paying teller's use. Banks differ as to this, but the following will invariably be found:

Ones and twos in packages of \$25, \$50 and \$100.

Fives in packages of \$250 and \$500.

Tens and twenties in packages of \$500 and \$1,000.

Fifties and hundreds in packages of \$5,000.

Many larger banks have odd packages put up for pay

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roll purposes, such as \$125, \$150, \$175 and \$225, in straight 5's and 5's and 10's.

A receiving teller may assist the work of the paying teller for Saturdays and other pay roll days by leaving some of his ones and twos crossed in amounts of Ten Dollars (\$10) and fives and tens crossed in amounts of \$100. In the larger banks the tellers go a step further and keep the legals and national bank notes sorted.

In that part of accounting which is done by the receiving teller three objects are kept in view: (1) to prove the deposit ticket; (2) to subdivide the checks into convenient groups for final settlement by the other departments of the bank; (3) in accomplishing the first two results, to handle the checks as few times as possible. This is best accomplished by what is known as the "block" or "batch" system which is illustrated in the forms contained in this lesson pamphlet. Under this system the teller verifies the currency but does not prove the addition of the ticket or examine the checks except to note that they have been endorsed. They are taken by a check clerk who assort them into the several divisions or departments of the bank, making a total of each list, which when recapitulated proves the amount of the ticket. This work is done on the adding machine which under this system is capable of producing its highest degree of efficiency. The widest division is made of those checks which are deposited in the greatest number. Thus in some banks the transit items are subject to three or more classifications which should be on a geographical rather than an alphabetical basis; in others the clearing house items are separated, while in a few instances we find the "self checks" are divided into the various ledgers in which the accounts against which they are drawn, are carried. The banks of many large cities have educated their depositors into dividing their checks into "inside" or city items and "outside" or transit items on the deposit tickets. In many parts of the east the depositors always write "place payable" against their deposit of checks. Such are the methods devised to enable the teller to "feed" the different departments of the bank with checks as fast as they are deposited. At the end of the day differences may be easily located or at least may be limited in their possibilities of "tying up" the entire working force.

At different intervals during the day the assistant will try for a balance, thus enabling him to locate immediately any errors that may have been overlooked. This is obtained by taking the amount of currency, gold and silver, and the amounts of checks charged to various departments in the bank, clearance, individual and general books, transit department, etc., which, added together with the amount received for exchange charges deducted, should equal the total of all the tickets in up to that time. The day's work completed will include a summary of these various balances and the turning over the cash to the paying teller.

PAYING TELLER'S WORK.—While the work in the receiving teller's cage is important and involves the responsibility of handling actual cash, the paying teller's cage is still more important. The duties in this department are, so to speak, the reverse of those in the receiver's. The former pays out cash amounting to several thousands daily, while the latter is receiving cash, verifies the count of the cus-

tomers as indicated on the deposit ticket, and in cases of error, the receiver is able to detect it immediately and the mistake is rectified before the customer leaves the window. With the payer each transaction made during the day must be considered correct. Only the final balance at the end of the day will determine if the cash has been correctly handled. Unlike the receiving teller, the paying teller is constantly doing business with others than the bank's regular customers. Many of these regard an overpayment on a check as a good joke or a legitimate profit so that the chances for losses to the bank are greater at the paying window, and with the responsibility of having continually a large amount of cash on hand for which he is held accountable, the position of paying teller is not an enviable one.

As has been stated the receiver when balanced turns his cash over to the payer and the same is done with the cash that any of the other tellers may have, so when the vault is locked in the afternoon all cash, excepting that in the reserve chest, is in the payer's compartment.

In describing the work of the paying teller's desk we will consider this department in one of our larger banks. Getting his cash out is one of his first duties in the morning. He must place the currency in drawers and tills and the silver in boxes conveniently arranged about his cage ready for business. He then counts up and proves the cash taken in by the receiving tellers the day before. He may or may not have this work finished by the time the bank opens, but will complete it as his time at the window will permit. He must have the work in his cage systematized if he wishes to render efficient service to the bank's customers.

In the first place he must know about how much cash he will need for the day's business and then have the currency in packages of such amounts and denominations as will enable him to wait on his customers rapidly. Part of this may be done by the receiving teller as has been stated. It is very convenient to have fives and tens strapped in packages of Fifty Dollars (\$50) each in addition to those already mentioned. He should keep his gold sorted and in such amounts as will be most convenient for him to use. Gold in sacks of \$500, \$1,000 and \$5,000, and silver kept in boxes in the following amounts will serve his purpose: dollars, \$500; halves, \$500; quarters, \$400; dimes, \$400; nickels, \$100; pennies, \$30. These boxes should be of uniform size, thus making it convenient for counter use as well as for storing in his silver vault. Addition silver may be kept in bags of larger amounts if so desired. Then with a good coin tray and an Automatic Cashier, the payer is well equipped for a busy day.

The paying teller has two or three compartments in the vault where he keeps his reserve, the surplus cash, which he does not need from day to day in his cage. A record is kept of the amounts and different denominations in these chests so that he can tell without having to count up just what he has on hand. With this kind of an arrangement he is able to carry a sufficient quantity of currency and coin for supplying the demands of his customers, without drawing on the bank's reserve. Here we are compelled to realize the extent of the confidence placed in the paying teller. However, he is ever mindful of the fact that his cash is subject

PAYING TELLER'S SETTLEMENT SHEET

Cash on Hand (Last Settlement)						
Clearing House (First Mail)						
" " (Citizens Checks)						
" " (Receiving Teller)						
" " (Receiving Teller's Mail)						
General Ledger (Cashier's Checks)						
" " (U. S. Treasurer)						
Receiving Teller						
" "						
Note						
" "						
Draft Clerk						
" "						
Cash Items (Last Settlement)						
	TOTAL RECEIPTS					
Charged to Individual Ledgers						
" " Foreign "						
" " General "						
" " Receiving Teller						
	BALANCE					
CASH ON HAND						
Gold Certificates						
" Coin						
Legal Tender Certificates						
" " Notes						
Silver Coin						
Subsidiary Coin						
National Bank Notes						
Silver Certificates						
		TOTAL CASH			(Over)	
					(Short)	
CASH ITEMS						
Total Actual Cash on Hand						
Paying Teller						
Receiving Teller						
Note Teller						
To next Settlement						

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to verification by the bank examiner or the bank's auditor at any time.

One of the important duties of a paying teller is to be constantly on his guard for forgeries, both as to signatures and endorsements. Either one of these may not only be the work of a professional but that of a trusted employee, bookkeeper or cashier with one of the bank's customers. Closely identified with this is the raised check, which can be so cleverly executed as to pass casual inspection. The time selected to carry out one of these schemes is usually on a day when the payer is very busy and has a line at his window, and any one of them successfully carried out results in a loss to the bank.

Certification of checks is another duty of the payer in which, if his best judgment is not used, he makes himself liable in more ways than one. In many banks the payer has been relieved of this duty, and it is the rule for no one other than the cashier or one of his assistants to do the certifying. The certification of checks emanates from a practice of modern business methods resulting from a desire on the part of the public to have a check verified both as to genuineness of signature as well as to the sum it calls for. While certification is a daily and extensive practice now, it has only become so during the last fifty years. Certification is a voluntary act and contract by the certifier evolving from custom only, and is not compulsory by law. The same laws govern both the certified and uncertified check, except that while banks are not prohibited from PAYING checks drawn for sums in excess of the balance to the credit of the drawer, it is a misdemeanor under the National Bank Act to certify a check unless the drawer has a credit balance sufficient to cover it at the time of certification. The act of certifying a check or of an accepted bill is performed by the officer or teller of a bank by stamping across the face of the instrument the word "Certified" followed by the name of the bank and the signature of the official. Authority to certify is generally vested in the superior officers or such other persons as may have been designated to act by order of the Board of Directors of the bank. No officer is allowed to certify his personal check.

The paying teller makes up shipments of currency, gold or silver, as ordered by the bank's correspondents, assorting the mutilated currency, ones and twos strapped in separate bundles, legal tender, gold and silver certificates in another and the national bank notes in still another. The first two can be forwarded in the same package to the Treasurer of the United States at Washington, D. C. The package must be marked "For Redemption" with the owner's name and address, the amount and kind of currency, and also contain a letter of advice regarding the shipment and disposition to be made of the proceeds. Clean currency and sometimes new money is always very acceptable.

The paying teller must know his customers. Besides knowing their signatures, which he has on file, he must be familiar with the balances they are carrying with the bank and also have a general knowledge of the make-up of their deposits. In time he gets to know them as a credit man does the customers of a large mercantile house. It is very easy for a payer, particularly if he has served some time in the paying cage, to allow himself to become too mechanical

in his work. This habit will grow on him if he lets it and prove to be of great hindrance. The demands made upon the man at the paying window require the cultivation of many qualities. He must be mentally alert, resourceful, of even disposition, have a controllable temper and a good supply of tact.

COLLECTION TELLER.—In modern accounting systems the records of items which are credited only when paid are kept not only with regard to accuracy and convenience, but also in a way that insures the least possible friction between the departments or clerks who make the final credits and debits. This is best accomplished by the carbon system. The collection register contains columns for a full description of each item, the depositor or endorser, the payer or drawee; to whom sent for collection, the amount, the date and the maturity. The final disposition or "fate" of the item is also recorded. Collection items require separate treatment and can not be handled as checks are, in totals. Therefore if the records are kept in book form, but one clerk can handle the items at a time. Under the carbon loose-leaf system shown among the forms in this lesson pamphlet, the records are identical with the old register system, but they have the decided advantage of being in duplicate or triplicate, and at the same time each item has its separate and individual slip. This enables several clerks to use them without interfering with one another; the bookkeepers post credits; the general ledger men charge the banks to whom the collections were sent, while the collection clerk can send off his advices and make his settlement without undue delay.

GENERAL LEDGER.—Bank bookkeeping may be said to be the most simple of any bookkeeping employed in mercantile transactions, and this applies both to the individual ledgers and the general ledger. The term general ledger in a small bank refers to the book from which is made up the statement of condition referred to, and to which all other accounts of the bank gravitate. In a large bank and especially one located in a reserve city the term is often used to denote the ledger in which are kept the accounts of other banks, as distinguished from the individual ledger used for local or dealer's accounts. The nature of the general ledger will be readily understood by an analysis of the bank statement, which is fully explained elsewhere.

A running record of an account between banks is kept in a journal in which each transaction is described by a mark or letter. For instance "R" means remittance, "C" a collection, "N" a note. Drafts are designated by their number without any other note. At the end of the day the total debits and credits are posted to the balance sheet and the new balance is struck. The balance columns may be kept in the journal sheets or they may be in separate books or sheets. A copy of the journal records, usually known as the "account current" is sent off monthly for "reconciliation." Remittances, advices and drafts are constantly in transit between banks, so that a settlement can never be reached as of a certain date unless these various items are taken into consideration. This is done on the reconciliation blank, a copy of which is shown in this pamphlet.

As has been stated, the general ledger proper makes no record of detail transactions in any of the various departments of the bank, but it is a summary of all the changes

REGISTER OF SIGHT COLLECTIONS

DATE	THIS NUMBER	DRAWN ON	WHERE PAYABLE	PAYABLE AT SIGHT	INSTRUCTIONS	OUR NUMBER	AMOUNT	FOR ACCOUNT OF	DATE PAID	DATE RETURNED

TYPICAL COLLECTION FORMS

Number	THE FOURTH NATIONAL BANK OF THE CITY OF NEW YORK NEW YORK, 19.....					
DEAR SIR: We enclose for collection the following item. Please advise payment promptly and by our number. If the item is not paid immediately at maturity it should be returned at once and not held for the convenience of parties. Yours respectfully,						
DANIEL J. ROGERS, <i>Cashier</i> .						
ENDORSER	WHERE PAYABLE	INSTRUCTIONS	TIME	DUE	AMOUNT	

Our Number	THE FOURTH NATIONAL BANK OF THE CITY OF NEW YORK NEW YORK, 19.....					
DEAR SIR: We are this day the following item received from you for collection. Yours respectfully,						
DANIEL J. ROGERS, <i>Cashier</i>						
PAYER	WHERE PAYABLE	YOUR DATE OR NUMBER		AMOUNT		
Less charges						

Number	THE FOURTH NATIONAL BANK OF THE CITY OF NEW YORK NEW YORK, 19.....					
DEBIT						
ENDORSER	WHERE PAYABLE	INSTRUCTIONS	TIME	DUE	AMOUNT	
Traced Answer						

Our Number	THE FOURTH NATIONAL BANK OF THE CITY OF NEW YORK NEW YORK, 19.....					
CREDIT						
PAYER	WHERE PAYABLE	YOUR DATE OR NUMBER		AMOUNT		
Less charges						

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that have taken place in the course of the day's business, as for example, the cash account, which fluctuates daily.

The first principle of bookkeeping is that for every debit there is a corresponding credit, and vice versa. When the teller pays a check, the amount is charged to the account of the depositor, and credited to cash. To avoid unnecessary labor, a separate entry is not made in the cash account for each transaction, but at the close of business, cash is credited with the total of all debits to other accounts, and debited with the total of all credits to other accounts.

INDIVIDUAL LEDGER.—There are so many different systems and forms in use that it would be impossible in a single chapter to attempt to describe to the student the various ledgers used by banks in keeping individual accounts. It will be sufficient to explain the more general customs to be found in this very important division of bank accounting. The old style, heavy bound volume with its weighted cover, is scarcely to be found in modern banks, and in its place we have the loose-leaf systems. There are three distinct advantages in the leaf system of bookkeeping. (1) No "dead" pages need be carried, nor is it necessary to begin a year with a thousand blank pages which will be filled only at the end of the period for which the book is prepared. (2) It is possible to separate "active" from "inactive" accounts, which further reduces the number of sheets in constant use. (3) A balance can be made every day with the minimum of trouble, since the loose sheets can be run off on an adding machine.

The individual ledger carries three columns, one for debits, one for credits and a balance column. The sheets may be separated either as to accounts, one for each depositor, or they may each have the transactions of several accounts, but separated into periods of time, say three days each. The checks are usually written in detail upon a journal and the totals at different times during the day are transferred to the debit column. The deposit tickets are posted separately in the credit column. Notes, discounts and collections are posted with the designation N, D, or C opposite the amount. The credits are added in lead pencil to the balance in the credit column, the checks are deducted and the new balance is struck. As a proof against clerical error or false entries, a skeleton or statement ledger is used in connection with this system. This work is always one day late, and having all the checks and tickets ready each morning, with the use of adding machines, a check is kept against all accounts by a comparison of balances and at the end of the month, the skeleton ledger sheet or statement is given to the customer. This system is fast supplanting the old method of balancing pass-books.

Bookkeeping in a bank calls for both careful and accurate work. Lack of accuracy cuts down the efficiency of the clerk, whose time is consumed in searching for differences, while carelessness in posting sometimes causes an apparent overdraft, which may result in a serious loss to the bank.

BANK EXAMINATION.—In bank accounting it is essential not only that the records are accurately kept and in balance, but that differences may be easily located. Settlement consists in equalizing exactly the debts and credits; each clerk, bookkeeper or teller must account for every change in his accounts which the transactions of the day

have occasioned. In large banks the auditor, who is often chief clerk, is engaged in confirming the settlements of the various departments and he also checks up the accounts between the bank and its correspondents. In small banks this work is usually done by the cashier. Since a bank is a semi-public institution, employing the money of its depositors as well as its own in conducting its business, it follows that there must be a certain amount of supervision over the accounts on the part of the civil authorities. This comes under the general term "examination" and bank accounting should be so arranged as to make the proper investigation as simple a matter as possible. The duties of a bank examiner may be likened somewhat to those of the physician who interviews his patient on the assumption that the latter may be ill. Hence the bank examiner not only certifies as to the correctness of the accounts but he must also be on his guard against possible fraud. The student must keep this thought in mind in reading the text which follows in the subject of bank examination. Bank clerks and officers are too often inclined to resent questions on the part of the examiner which would seem to insinuate that their honesty or ability is in question, when the examiner is merely performing intelligently the services for which his office is created.

Bank examinations in the United States were without definite form and substance until the federal bank act was passed June 3, 1864, and the office of Comptroller of the Currency created. Its corps of clerks and examiners was organized and charged with the responsibility of interpreting and applying the law and of supervising the banks organized under it. Hugh McCulloch, afterwards Secretary of the Treasury, was the first Comptroller of the Currency. He had been President of the Bank of the State of Indiana when so honored, and being a practical banker, the Comptroller's department immediately came into prominence as one of the most important offices in the government. Through his efforts many precedents were established which have always been respected by bankers and his successors in office, and since that time Congress has made very few changes in the National Bank Act. However, the business of the country has progressed and expanded, the population has doubled, the volume of credit has trebled and the forms of credit have changed.

Notwithstanding the fact that no important changes have been made in the original bank act, the various State Legislatures have met the demands of the times. In almost every State laws have been enacted, which, although by no means uniform, permit the organization of State Banks, Savings Banks, and trust companies, etc., and establish a supervising Banking Department having a Superintendent or Commissioner and a corps of examiners. There are now approximately three times as many banking institutions under State supervision as there are National banks.

The duties of examiners vary as the Federal and State laws vary, and similar distinctions exist in their personalities and methods of solving problems. The evidence available compels the conclusion that nearly all examiners do their duty as best they understand it. They are all agents of some department of the Government or State and are charged with the execution of law. Primarily the duties of an examiner are to ascertain:

ACCOUNT No. _____

[illegible][illegible]

DATE		DEBITS			CREDITS			BALANCE		

[illegible]

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1. That the institution is solvent.
2. That it is not violating the law.
3. That the management is honest.
4. That the policies and tendencies are safe and sound.
5. That the facts are accurately reported to his superior officer.

Based on these requirements are many responsibilities and duties of detail whose ramifications are numerous and complex. This vigilant examiner has a topical list of the duties he considers essential to a thorough investigation, and although the method is frequently changed, a synopsis of the details would be about as follows:

1. Count the cash on hand and verify the amount with the ledger. Obtain explanations for all cash tags and memoranda. Verify and list the cash items held in lieu of money, items to be collected and returned items. Enquire if a petty cash fund exists, and, if so, examine carefully. Verify details of the day's exchanges and drafts sent in or out on balances.
2. Scrutinize, list and classify loans and discounts; carefully examine collateral; be sure all notes are signed; record past due paper and arrearages of interest payments; be sure no loans exceed the legally prescribed limits. In most States savings banks are not permitted to loan on commercial paper, or unsecured loans.
3. Count and examine the bonds and securities and verify with the general ledger. Calculate the market value and compare with book-value, noting appreciation or depreciation. When counting securities, note the due dates of the last coupons clipped, and verify the coupon account.
4. Inspect and list mortgages; be sure taxes are paid, title insurance, appraisal certificate, assignment and insurance policy are on file and that the mortgage is not in excess of the legal percentage of the appraised valuation.
5. Real estate owned—examine deep, tax receipts, title guarantee, appraised, assessed and book values. Is the insurance sufficient?
6. Carefully investigate overdrafts and if uncollectible have them charged to profit and loss.
7. Investigate the liability of directors and officers on loans and overdrafts.
8. Be certain that furniture and fixtures figures are not excessive.
9. Become familiar with the hidden assets (reserves) in the above accounts.
10. Foreign Department. If shown on balance sheet as separate item, verify all assets and liabilities of this department, being sure to note contingent responsibilities. Send for statements from all foreign banks.
11. Capital stock should be verified by proving issues, cancellations and outstandings. Look for overissues.
12. Verify amounts due from banks and bankers, sending out statements.
13. Make thorough test of individual deposits, examining dormant accounts, etc.
14. Make tests of interest calculations and classify interest bearing accounts.
15. Verify total of outstanding certificates of deposit. Be sure the old ones are cancelled and that partial withdrawals are recorded on the stubs. Prove total with controlling figure of the general ledger.

16. Verify cashier's checks in a similar manner.
17. Verify certifications with the certification book and if in doubt let the receipt for returned vouchers be produced.
18. Verify cotton, coffee and produce margins.
19. Verify provident accounts.
20. Search for hidden profit and loss items which may frequently be found in the individual ledgers.
21. Verify revenue and expense accounts leading to correct profit and loss and surplus figures.
22. Contingent liabilities should be carefully investigated.
23. Audit last published statement, and reconcile it with the general ledger.
24. Carefully scan the minute book.

GENERAL PLAN OF EXAMINATION.—It is not purposed to discuss the minute details of an examination, but merely to present a general plan, which may offer fruitful suggestions to the mind of the student. Under present requirements it is neither possible nor desirable to obliterate the dividing line between an examination and an audit, even though the probing into some balance sheet items is of the nature of a partial audit of the affairs of the bank undergoing examination. The particular conditions and the judgment of the examiner determine which accounts require auditing, and of which of them a thorough testing affords sufficient verification.

One of the first duties of an examiner upon beginning an examination is to place seals upon all the vaults or safes containing cash or securities, and keeping them under seal until the verifications are completed. By this means all the securities held are under control simultaneously. The seals may not be broken by the officers or employees of the institution, otherwise their purpose would be defeated. By the proper use of seals the substitution of securities is prevented.

Having safeguarded the substitution of securities the examiner counts the balance of cash on hand and scrutinizes the cash items carefully. Transfers from one teller to another or the sending out for cash to conceal defalcations, etc., should be immediately detected by means of a distribution of the staff of examiners. Clearing House and collection items are either sent out by the examiner himself, or are properly confirmed by the Clearing House and correspondents.

The examination of demand loans and the collateral therewith is one of the most important branches of the work, and many defalcations have been hidden by the failure to indorse partial payments. The only absolute way to ascertaining the correctness of these loans and collaterals is to send out a memorandum to each borrower setting forth the amount of loans and collaterals held as on the day of the commencement of the examination. If such a thorough proof is considered necessary in the case of the institution under investigation, the customer's confirmation should be returned addressed to the examiner. The possibilities of raised stock certificates must be borne in mind. Amounts may be changed from a small number of shares to a larger number and used for fraudulent borrowings.

A thorough examination of a trust company must embrace the trust, safe deposit and other departments which

FORM OF RECONCILEMENT REPORT

In Account with _____ of _____
Please Write the Name of Your Bank and Address here.

To The Institute National Bank, _____ 19____
 New York, N. Y.

Your statement of account rendered to _____ showing balance
 of \$ _____ due _____ has been examined and agrees with our books as per reconciliation noted below.

This should be signed by some one whose signature we have on file. Cashier.

DATE				DATE			
	We Debit (not in your account),				We Credit (not in your account),		
	 Remittance in Transit,						
	 In returning this Reconciliation please <u>enclose</u> , seal and mail <u>only</u> in envelope herewith addressed, to _____ Auditor.				 Total Drafts Issued (outstanding),		
	 You Debit (not on our Books), <small>(State whether since credited by you)</small>				 You Credit (not on our Books), <small>(State whether since debited by you)</small>		
					Interest for		
	 (Institute National Balance),				 Our Balance,		

Correspondents will confer a favor by filling up and returning the above blank. In reporting differences, be particular to state DATE of Charge or Credit, and also whether since charged or credited by you. In referring to Remittances please advise DATE of letter.

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may be conducted by the company under inspection. The examination of the securities in a trust department is as important as the examination of the banking department. The distinction between a bank and a trust company is well defined. The powers of a trust company depend upon the terms of its charter, but they are not strictly banking powers, and the limit of any bank's power is defined by statute. The functions of a trust company are largely found in their fiduciary capacity. In their banking affairs they enjoy certain advantages over banks, being permitted, for example, to make loans on real estate, which is prohibited to the National banks.

Often the market value of investments is largely in excess of the book value. Real estate owned, and furniture and fixtures are also often carried at less than their actual value. Such conservative figures hide secret reserves which are favored by careful bankers. Nevertheless, the abuse of secret reserves must be guarded against despite the fact that a balance sheet is not, and does not pretend to be, a statement of officially determined facts. It is merely a conservative estimate of a financial condition which by its very nature cannot be accurately determined. As evidence of this fact it may be mentioned that few banks carry any reserve for unearned discounts, although this is a considerable item with large institutions.

In verifying the accounts of foreign banks and bankers, examine the securities held abroad, long drafts drawn on foreign cities, time bills, acceptances, finance bills, date bills, customers' bills, commercial credits and contingent liabilities assumed by indorsements or guarantees. In America it has unfortunately been customary to show the balance of the foreign department as one item on the balance sheet; recently the lessons learned from Europe have stimulated the larger institutions to consolidate the balance sheet of the foreign department with the general balance sheet, and also to set up the contingent liabilities with their per contra assets as is the European practice. In this connection it must not be forgotten that despite the general rule of good banking that a bank may neither guarantee nor become surety for its customers, a bank becomes primarily liable for the payment of a draft when it lends its credit by accepting time paper. This appears to be contrary to the principles of common law, and yet the charters of some trust companies give them the power to guarantee the payment and collection of promissory notes, bills of exchange, etc.

THOROUGHNESS OF EXAMINATION.—It was formerly considered that if an examiner had verified the assets of an institution and found them as stated, he had ascertained that the institution was solvent, and that he had completed the work required of him. However, examiners are no longer satisfied unless they have also verified the liabilities. The accounts with other banks have to be verified by correspondence, and the replies are mailed direct to the examiner, or in large departments like that in the State of New York, verifications are sent to the department's offices where certain examiners effect the reconciliations.

Deposit accounts are a fertile field in which to detect willful as well as inadvertent wrongdoing, because defalcations and also false balance sheets are the results of manipulations of the individual deposit accounts. The dormant

accounts should receive especial consideration, and, if the examination is to be a thorough one, letters should be sent to obtain the pass-books of all the prominent accounts and their balances should be verified. It is not possible in an ordinary examination to verify all the individual pass-books for several reasons, the principal ones being the volume of work such a method would require and the inadvisability of arousing depositors' suspicions and injuring the bank's patronage by asking to have all the books sent in. The pass-books of the larger depositors should be frequently balanced. By keeping a list of the books inspected during the course of an examination, it is possible during a period of years to examine all of the accounts. The examiner should assure himself that an internal system of checking balances prevails in an institution. The method of preparing monthly statements of depositors' accounts is superior to the pass-book settlement, because it enables the examiner to verify all depositors' balances on the same day from the confirmation of the correctness of the accounts received from the depositor himself, this being the best method of insuring accuracy.

The rudimentary precautions of an effective system of checking records may be formulated in the following three fundamental rules:

1. No clerk should have access to the books recording entries which go to check the entries made by that clerk, i. e., tellers should not be permitted to keep or assist in keeping any of the ledgers or checking off of trial balances thereof.
2. The clerks should be shifted about at frequent intervals, so that fraud, even if committed, may be easily detected by a different clerk going over the same account.
3. That no cash entries (transfers, for example) should ever be made without especial authority, confirmation of which is usually evidenced by the initials of the officer authorizing the same.

The test of an examiner's competency is his ability to judge of the correctness of items by an executive testing—not necessarily of the items themselves, but of their totals. The responsibility of verifying the bank accounts rests not only with the safeguarding of the interests of the stockholders, but in offering to the public a guarantee of the accuracy of the records. Precaution must be exercised to discover the existence of duplicate passbooks. In some institutions the old custom of use of duplicate deposit slips and the writing of the details of the checks drawn (i. e., numbers, dates, etc.) in the pass-books is an effectual preventative of this kind of fraud, notwithstanding that such a system largely increases labor and is too cumbersome to find favor upon the stress of business of a large modern bank.

From the foregoing imperfect sketch of an examiner's duties it may be seen that the solvency of an institution and its obedience to the laws and the honesty of the management and employees are thoroughly tested during the examination by each phase of the investigation. For obvious reasons it is deemed undesirable to enlarge upon the methods of defaulters.

In order that the examiner may convince himself that the policies and tendencies of the institution are for the maintenance of the principle of safe and sound banking, he must not only have a broad comprehension of the affairs of

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the institution, but must have detailed information on numerous subjects. Arranged categorically and regardless of a seeming repetition of topics, answers to questions similar to the following enable the examiner to form a just opinion of the administration of the bank:

1. Were loans made during the period to the directors (or trustees), officers or employees?
2. Are there any advances either direct or indirect upon shares of the stock of the institution?
3. What is the value of the notes which are past due?
4. What is the estimate of the value of single name obligations?
5. Are there any excessive lines of credit?
6. Have financial statements been obtained from doubtful borrowers?
7. Are there acknowledgments in writing admitting the validity of large borrowings made by the makers or indorsers?
8. Are the reserves always maintained?
9. Are the securities carried at a figure in excess of actual market value?
10. Are the margins on loans sufficient?
11. Are the margins within conservative and legal percentages of appraised values?
12. Are the officers and employees under sufficiently heavy bonds?
13. Are the directors (or trustees) and committee meetings regularly attended?
14. Do the minutes of the institution indicate that the law is being obeyed and that its provisions have been enforced?
15. Do the expense accounts accurately reflect the salaries and other financial operations?
16. Are the disbursements properly vouchered?
17. Was the last closing of the profit and loss account on a uniform basis with the previous bookkeeping?
18. Is the income upon loans and investments at the rates shown by the ledgers?
19. Are the safes secure, and are the premises properly sentinelled by watchmen?
20. In case of disaster requiring outside financial help, are there any resolutions on the minutes providing for such assistance?
21. Does the bank have the necessary books, and are they well kept?
22. Are the bookkeepers and clerks frequently changed from one position to another? Is the bookkeeping properly divided among the employees?
23. Are daily cash balances and frequent trial balances of the ledgers, loans, etc., made?
24. What is the nature of the accounts of the employees which are kept in the bank?
25. What is the security upon overdrafts?
26. Are the officers careful of the small things which count for good banking practice, such as proper filing, proper cancellation and pasting of stock certificates, paid certificates of deposits, paid officers' checks, indorsement of partial payments on loans, etc.?
27. Are the computations of interest properly verified by another clerk?

28. Are chemical or knife erasures on the books very frequent?

29. What is the method for requisitioning the supplies, particularly such items as loose-leaf sheets or cards?

30. What supervision exists over the custody of pass-books?

31. Are the signature cards occasionally checked against the names on the individual ledgers, with the purpose of disclosing fictitious accounts?

32. Is there official written authority for the important acts of the employees of the bank?

33. Do the officials receive departmental reports?

34. Are the original slips which furnish the authority for debit and credit entries author-initialed?

NATIONAL BANK EXAMINATION.—In connection with examination reports National Bank Examiners are required by the Comptroller of the Currency to furnish the following information from which the student may derive a better understanding of the nature of bank accounting and the necessity of keeping records that conform to the requirements of banking law.

"Directors."—Opposite the name of each director enter full amount of all paper in bank upon which his name (individual or firm) appears as maker, indorser, or guarantor, but where two or more directors are liable on the same paper, deduct from the total the duplicate liabilities, so as to show the net liabilities of all directors. Give the post-office address of each director, his occupation and estimated worth and the number of shares held by him. State how often directors meet as board; whether they authorize or approve loans and discounts; in what form such approval is recorded; whether they have an active discount committee; whether they have an active examining committee; whether loans and discounts to their firms and corporations are specially acted upon by the board; whether the records show the directors who approve excessive loans. Ascertain, if possible, whether any director has become disqualified by hypothecation of stock; how often non-resident directors and officers meet with the board.

"Officers and Employees."—State the liability of each as payer, endorser or guarantor of any paper held by the bank, the amount of salary, bond, and whether engaged in any other occupation. Give only number, aggregate salaries, etc., of employees below the grade of teller and bookkeeper. State whether official bonds are in force; in whose custody lodged; who keeps the individual ledger; who balances the pass books and when last balanced; whether compared by some one else; whether any employee receives deposits and makes entries in the individual ledger; who keeps the general ledger; who reconciles bank balances; whether they are verified by some one else.

"Books and Accounts."—State how often general ledger is balanced; what form of individual ledger is used, give forms of savings department and inactive ledgers; how often balanced; how often loans and discounts are verified; how often accounts with correspondent banks are reconciled; to what extent the envelope or statement system is used for depositors' accounts; how are certificates of deposit proved, and how often; how are paid certificates filed; are canceled certificates and drafts properly filed; are pass

BANK ACCOUNTING

books balanced frequently and noted on ledger; are proper entries made in Redemption Fund and Circulation Accounts?

"Loans and Discounts."—The loans and discounts and other securities must be carefully verified and every discrepancy noted. Give the total amount of loans and discounts and list separately the amount of bad debts as defined in the National Bank Act, and other overdue paper itemizing doubtful items and losses. Itemize the loans exceeding the limit prescribed by the Bank Act showing the names of the borrowers, the value of pledged securities and the financial standing of makers and indorsers. Give the name, amount and security of excessive lines of accommodation to one individual or interest, or affiliated individuals or interests. Include notes, bonds, stocks, and other forms of credit. If any portion of these lines constitutes an excessive loan, it should also be shown. State general character of loans; whether well distributed; general character of collaterals; whether corporations or enterprises in which directors or officers are interested borrow to an undue extent; any large liability of director or officer as maker or indorser—describe fully. State whether all paper claimed by the bank as its property, including collateral, is properly indorsed or assigned to it, and all mortgages properly recorded; give current rate of interest obtained. Itemize losses; does the bank place paper with other banks and to what extent; are they liable in any way; do they take loans to accommodate other banks and to what extent; is sending bank in any way liable; list loans secured by other national bank stock, when the borrower is an officer or director in the bank whose stock he puts up. Give list of doubtful paper other than previously itemized under past due and bad debts; include doubtful real estate paper. State the aggregate amount on which real estate security has been taken for debts previously contracted, and the amount on which real estate security has been taken in violation of law. Give the amount of real estate owned other than the banking house, listing separately the amount taken for debts previously contracted and the amount acquired in violation of law.

"Bonds, Securities, etc."—Enter number of shares of stock or face value of bonds, and state whether bonds or stocks. Give name of corporation issuing stocks, bonds, etc., amount at which carried on books, estimated actual market value. State whether taken for "debts previously contracted," or otherwise, and if interest or dividends are not regularly paid, etc. Indicate those loaned or pledged in any way. If valuable assets of this class are charged off, list them.

"Overdrafts."—(Overdrafts are regarded as loans).—State whether habitually granted and what amount is unsecured. Verify amount at date of examination and compare amount stated in last report of condition with amount shown by the books for same date. List those remaining in bank six months or longer. Itemize overdrafts of officers and directors and state whether habitual.

"Banking House."—State whether suitable and convenient; for what other purpose used; whether carried at fair value on books; whether insured; if deed is in name of bank; whether vault and safe are good and secure; whether banking room is used by any other banking institution;

whether furniture and fixtures are worth book value; give assessed valuation and gross rental.

"Cash Items."—Describe any irregular items and itemize losses estimated.

"Reserve."—Is an exact daily record kept of the different kinds of money on hand? (1) Is total reserve sufficient? (2) Is reserve in bank sufficient? (3) Was the average reserve for the last 30 days in the bank sufficient, if not, what was the percentage? (4) Was the average reserve for the last 30 days with agents sufficient, if not, what was the percentage?

"Capital Stock."—State whether stock certificate book is properly kept; whether surrendered certificates are properly assigned, canceled, and attached to stubs; whether any stock certificates are signed in blank; whether stock ledger is properly kept; whether amount of stock outstanding was verified; whether bank owns any shares of its own stock, and if so, how and when acquired; whether bank holds any shares of its own stock as collateral, and if so, how acquired.

"Affiliated Bank."—(1) State whether there is an affiliation with any State bank, savings bank, or trust company through a controlling ownership of stock by the same shareholders, by practically the same management, or in any other manner, giving name of affiliated bank. (2) If transfer of certificates of stock of the national bank transfers ownership of stock of the affiliated bank, state that fact. (3) State whether stock of affiliated bank owned by shareholders of national bank is held by them individually or as a corporation. (4) State whether stock of affiliated bank is trusted for benefit of shareholders of national bank. (5) State whether any director or other officer is an officer of any other bank.

"Dividends and Surplus."—Give date of last dividend rate and amount and state whether semi-annual or otherwise; state amount carried to surplus. State reason, if any, why bank should not declare a dividend at end of current dividend period; whether you compared bank's last report of earnings and dividends with the amount of profits shown by its books at same date; whether interest paid is deducted from gross earnings and whether any profits are irregularly carried on the individual ledger, in special accounts, or charged off the books. Is itemized expense account kept and did you examine that account to date of previous examination? Did you examine earnings?

"Due from Reserve Agents, Trust Companies, Banks and Bankers."—State what rate of interest received on balances and whether certificates of deposit issued by other national banks are secured by collateral. List reserve balances.

"Due to Reserve Agents, Trust Companies, Banks and Bankers."—State whether amounts due are on open account or on demand or time certificates of deposit; whether they are secured by collaterals and rate of interest paid. (Forward report promptly without awaiting verification.) List reserve balances.

"Individual Deposits."—State rate of interest paid; whether a proper record of all certificates of deposit, cashier's checks, and certified checks issued is regularly kept in a book for that purpose, and give rate of interest. If bank conducts "savings department," give method of verifying pass books and rate of interest. State whether previous notice of

BANK ACCOUNTING

deposit withdrawals are provided for. If bank holds State, county, municipal, insular possession, or any very large balances subject to check, give list and rate of interest paid. Give total of inactive ledger. State whether surrendered certificates are properly canceled and filed in numerical order for auditing. State whether properly audited by this method.

"Rediscounts and Borrowed Money."—List amounts of money borrowed, whether on bills payable, rediscounts, open accounts, certificates of deposit, bonds, or otherwise, and state where borrowed and date, interest rate, date of maturity, security, whether all liabilities are shown on books, whether authorized by the board of directors, whether bank borrows habitually.

"Recapitulation."—Recapitulate the following resources, showing whether doubtful, or indicating loss. Give the estimate value of assets in each class not shown on the books. Bad debts, other overdue paper; all other loans and discounts, overdrafts, premiums on U. S. bonds, bonds, securities, etc., banking house, furniture and fixtures, other real estate, cash items. Show the total amount of surplus and profits less taxes, expenses, etc.

"General Remarks as to Condition of Bank."—Summarize matters to which special attention should be called. Include certificate relative to solvency, by-laws, management, and condition of books. Was a meeting had with the board of directors? Were all matters subject to criticism considered with them? What elements of danger are in the bank?

SAFETY AND SOUNDNESS.—An examiner, when preparing to report upon an institution, must have ascertained the general character of its business and the personnel of its officers, and neither the officers nor employees should know when the examination is to be made. A bank should be so organized that it welds together the different classes and conditions of the community. To limit the making of loans either to friends or enterprises in which the bank's officers are interested would be a great weakness in the management of a bank, nor is it possible for bankers to be too careful with the investments of their trust funds. The funds of a commercial bank should always be loaned upon short time. Notes carried by a bank and continually renewed should be scanned with suspicion by the examiner, lest the makers can not pay when so requested. Every bank should insist upon the payment of a part of the debt on each renewal, unless the loan be collateralized by ample security. Past due notes or loans and overdrafts are neither indicative of a healthy nor prosperous condition. Successful bankers and bank examiners are opposed to past due notes, overdrafts or cash items of long standing.

Aside from the quality or character of a bank's investments or assets, the question of its reserve is most important. This fund is strictly speaking a percentage of a deposit held to meet any cash demand made by depositors, and is not for the use of borrowers. The law plainly states that when the reserve is deficient no loan can be legally made until this fund is replenished.

UNOFFICIAL EXAMINATIONS.—In addition to official examinations by National and State authorities several forms of unofficial examination are in more or less general use. In accepting from stockholders the responsibili-

ties of directorship, the directors of banks or other financial institutions are of necessity required to examine closely into the affairs of trusteeships thus assumed. Special examinations by directors have therefore become common and in many cases exceptionally comprehensive. In such examinations satisfactory results are often obtained by the use of clerical committees chosen from among the different department heads of a bank, who are familiar with routine work and are thus able to provide avenues of approach for effective investigation.

Another method to ascertain the condition of a bank, and more especially to show the detail relation of its assets to its liabilities, is the use of certified or chartered public accountants. The use or abuse of this method depends upon the character of bank officials themselves, as well as the personnel of the accountants employed.

Bank examinations under Clearing House supervision have also proved satisfactory. After each examination thus conducted the examiner prepares a detailed report in duplicate, setting forth a description of the bank's loans, bonds, investments and other assets, making special mention of all loans, either direct or indirect, to the officers, directors or employees, or to corporations in which they may be interested. This report also contains a description of conditions as found in every department. One of these reports is filed in the vaults of the Clearing House in the custody of the examiner, and the other is handed to the bank's President for the use of its directors. The individual directors are then notified that the examination has been made and that a copy of the examiner's report has been handed for the President for their use. By so doing every director is given opportunity to see the report and co-operate in maintaining a high standard in his bank. The detailed report thus made is not examined by the Clearing House Committee unless unusual conditions make it necessary, but a special report in briefer form is prepared for the Clearing House Committee.

EXERCISES.—In connection with "Bank Accounting" the following exercises are prescribed:

1. Show a complete statement of condition of a National Bank in a Reserve City (not Central) using fictitious figures in even amounts; the bank to have \$500,000 capital and total deposits of \$4,000,000.

2. Estimate the percentage of reserve in your statement and show how it is made up.

3. What justification is there for adding "checks and other cash items" to the reserve?

4. Trace upon the records of a bank of the size with which you are familiar, the course of a check: (a) Upon your own bank; (b) Another bank in your town; (c) A foreign or transit item.

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6. Give an example of a receiving teller's settlement and a paying teller's settlement in your bank.

7. What are the objects of bank examination?

8. What are the benefits to the bank and its employees in having the clerks shifted occasionally?

9. How would you conduct an examination?

10. What elements go to make up an efficient accounting system?

BANK ACCOUNTING

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American Institute of Banking

Loans and Investments

ANY BANKING INSTITUTION will succeed or fail in accordance with the degree of integrity and intelligence used in making its loans and investments. In utilizing available funds it is the primary function of commercial banks to discount promissory notes representing legitimate local business transactions. Funds not thus demanded may properly be invested in outside commercial paper or civil and corporation bonds. Trust companies and savings banks are generally supposed to invest their available funds in substantial bonds or real estate mortgages, but many trust companies are practically banks of deposit and discount, and some savings banks do similar business. Principles and practices pertaining to loans and investments are consequently of general application.

DEPOSIT AND DISCOUNT.—Banks are dealers in both money and credit and the more important of these two things, from the point of view of the modern bank, is credit. The handling of money and of credit alike is accomplished through the channels of deposit, discount, and issue. The bank receives deposits; pays them back on the order of the depositor; loans the deposits of its clients as well as its own capital and credit; discounts notes and other negotiable paper. It may also issue its own notes if so empowered. A bank may do all of these things or it may be limited to the performance of only certain functions. When one, who has sold goods to another and has received a note in return therefor, wishes to obtain the amount promised, he may present such note at his bank and obtain the money less the interest at an agreed rate to the time of maturity, or else a credit on the books of the bank less this same interest. Whether the bank discounts the note of a debtor presented through a creditor who is a client of the bank mentioned or discounts the customer's own note, in either case the note becomes an asset of the bank, because it stands for amounts due to the bank. What now does the bank give in exchange for the note which the customer has sold to the bank for a consideration? Unless actual money is exchanged for the note in question the bank will give a credit to the customer on the books of the bank. This credit is a deposit, and allows the customer to draw upon the bank for the full amount at any time or to draw from time to time until the credit is exhausted. This is a credit which comes from discount and is a liability of the bank. It makes no difference whether this be in the form of loan, that is the discounting of a note, or whether a loan be made to a customer on the basis of collateral. In the latter case the collateral is an asset and the credit given in return for it and deposited to the customer's account is a liability. Where the customer deposits money in his bank the deposit creates a liability for the bank. Now let us suppose that instead of receiving credit on the books of the bank or taking actual money in return for the note the customer receives bank notes which, by compliance with law, the bank is empowered to issue. These notes are promises to pay on demand; they are liabilities of the bank, for it must always be ready to redeem them in money. These are liabilities differing in form from deposit liabilities, but the same in content. The banks of the olden days carried on trade; but trade in commodities

is not a part of modern banking. The basic functions of modern banking are deposit and discount. Indeed these two must be present, for if only discount be present then the bank will be limited to the loaning of its own capital and thus circumscribed. The power of issue is a privilege of banking but not necessary for success; it therefore occupies a position secondary to the other two functions. There are banks of deposit and discount without the power of issue, but banks of issue have the powers of deposit and discount, although generally limited in the character of security for loans.

The function of loaning was prior in the business of modern banking to that of deposit. Governments needing money, as in England, obtained it from citizens or others and in return gave powers which enabled these persons to do a banking business. The next step would be for these and others, as confidence grew, to deposit surplus funds in the bank, and to borrow therefrom. From paying a fee for safe keeping of valuables as in the case of the English goldsmiths, who kept strong houses for protection of these valuables, the depositor was able to receive a small return from the new banker, who, in turn, loaned to the public on a larger return and thus received his reward. But in loaning it was necessary for him to always have in reserve sufficient funds to meet all actual demands on the part of depositors, and so he arranged that loans should fall due sufficiently near together to keep him supplied with enough to meet the demands and still have its own capital and a large share of the deposits doing work. In order to be able to do this successfully there must be faith that the bank is able to meet its obligations. Confidence begets confidence and adds to business and profits.

Thus, through the arrangement of loans, banks may figure on keeping at work the greater part of their deposits. But the machinery of credit other than arrangement of loans assists most materially to the end. The extension of the use of checks, drafts, money orders, and other representatives of money, reduces the use of actual money to a minimum. Clearing houses, bank correspondents, resulting in payments of balances, serve to assist banks to maintain control over deposits as long as confidence remains in the banks. The deposits lie behind these promises to pay and in highly developed communities people prefer, for the sake of convenience, to use these credit instruments. Indeed in cities the use of money is reduced to a minimum, yet there must be some money, for it represents the reserve on which the credit instruments are based.

It has been said that banks loan their capital and deposits, but they are not thus limited, for they may loan their own credit, deposit credit. If one wishes to borrow from a bank he may simply wish to have transferred to his own account a certain amount upon which he may draw as it pleases him. He may draw by check upon this amount, presenting the check to another, and the latter may deposit in another bank. Before this amount is called for the loan may have been paid, and thus the bank may receive interest return for a liability which it has not been compelled to meet. Under this same head might properly be considered

NAME OF BANK OR TRUST COMPANY (PRINTED HERE IN RED OR BLACK)

FOR THE PURPOSE OF PROCURING CREDIT FROM TIME TO TIME WITH YOU FOR OUR NEGOTIABLE PAPER OR OTHERWISE, WE FURNISH THE FOLLOWING AS A TRUE AND ACCURATE STATEMENT OF OUR FINANCIAL CONDITION ON 19 . WE AGREE TO AND WILL NOTIFY YOU IMMEDIATELY IN WRITING OF ANY MATERIALLY UNFAVORABLE CHANGE IN OUR FINANCIAL CONDITION, AND IN THE ABSENCE OF SUCH NOTICE OR OF A NEW AND FULL WRITTEN STATEMENT, THIS MAY BE CONSIDERED AS A CONTINUING STATEMENT AND SUBSTANTIALLY CORRECT; AND IT IS HEREBY EXPRESSLY AGREED THAT UPON APPLICATION FOR FURTHER CREDIT, THIS STATEMENT SHALL HAVE THE SAME FORCE AND EFFECT AS IF DELIVERED AS AN ORIGINAL STATEMENT OF OUR FINANCIAL CONDITION AT THE TIME SUCH FURTHER CREDIT IS REQUESTED.

[illegible]

PLACE HERE ANY COMMENTS ON MISCELLANEOUS ASSETS

IS THERE ANYTHING IN THE LAWS OF YOUR STATE WHICH LIMITS THE BORROWING CAPACITY OF A CORPORATION? _____

ACCOUNTS PAYABLE

DEPOSITS

BONDED DEBT

MORTGAGES—OTHER THAN THOSE SECURING BONDS _____ SEE BELOW UNDER LAND

ACCRUED LIABILITIES

ITEMIZE _____

PLACE HERE ANY COMMENTS ON MISCELLANEOUS LIABILITIES

TIME OF YEAR CURRENT LIABILITIES NORMALLY MAXIMUM? _____ MINIMUM? _____

CAPITAL

PREFERRED AUTHORIZED? _____ COMMON AUTHORIZED? _____ TOTAL _____ PREFERRED ISSUED? _____
COMMON ISSUED? _____ TOTAL _____ ANY IN TREASURY? _____ DIVIDENDS: PREFERRED? _____ COMMON? _____
ORGANIZED UNDER LAWS OF? _____ WHEN? _____ EXPIRATION OF CHARTER? _____ ARE YOUR SELLING HOUSES
OR BRANCHES SEPARATELY INCORPORATED? _____

SURPLUS-PROFITS

RESERVES

ITEMIZE.....

SALES

(NET) FOR LAST FISCAL YEAR? _____ DOES THIS INCLUDE SALES OF OR TO SELLING HOUSES AND BRANCHES? _____ DOES IT
INCLUDE SALES BETWEEN DEPARTMENTS, AS FROM WHOLESALE TO RETAIL? _____ LOSSES FOR LAST FISCAL
YEAR? _____

INSURANCE

ON MERCHANDISE? _____ ON PLANT? _____ CREDIT? _____ LIABILITY? _____

ENDORSERS

NET WORTH OF EACH ENDORSER OUTSIDE OF INTEREST IN THIS BUSINESS: _____

DO THEY ENDORSE OTHER PAPER THAN THIS? _____

GROSS PROFITS ON SALES FOR LAST FISCAL YEAR

GROSS PROFITS FROM OTHER SOURCES

COST OF ADMINISTRATION, INCLUDING INTEREST, TAXES, INSURANCE, BAD DEBTS, REPAIRS, MAINTENANCE, DEPRECIATION, AND ALL OTHER EXPENSES OF EVERY KIND

NET PROFIT

LESS DIVIDENDS PAID
SURPLUS FOR YEAR

HAVE THE BOOKS BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT? _____ IF SO, GIVE NAME OF FIRM AND DATE OF AUDIT _____

LAND

DESCRIPTION	LOCATION	ASSESSED VALUE	APPRAISED VALUE	MORTGAGES	MORTGAGEE	PER CENT.	EQUITY

IS TITLE IN CORPORATE NAME? _____ BY WHOM APPRAISED? _____ WHEN? _____

CORPORATE NAME

DATE SIGNED _____ BY _____
(OFFICER'S TITLE MUST BE GIVEN)

OFFICE ADDRESS _____ BRANCH OFFICES _____

LOCATION OF PLANT OR PLANTS. _____

DESCRIBE NATURE OF BUSINESS _____

OFFICERS

BOARD OF DIRECTORS

PRESIDENT

CHAIRMAN

VICE-PRESIDENT

TREASURER

SECRETARY

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ASSETS						LIABILITIES								
CASH						NOTES PAYABLE								
BILLS RECEIVABLE (NET)						ACCOUNTS PAYABLE								
ACCOUNTS RECEIVABLE (NET)						DEPOSITS								
MERCHANDISE						MORTGAGES								
LAND						ACCRUED LIABILITIES								
BUILDINGS														
MACHINERY—FIXTURES														
TOTAL						NET WORTH								
						RESERVES								
						TOTAL								

PLACE HERE ANY COMMENTS ON MISCELLANEOUS ASSETS

TO OWN BANKS? _____ NAME YOUR BANKS AND LINE WITH EACH _____

WHAT TIME OF YEAR DO YOU NORMALLY BORROW OF YOUR BANKS? _____ TO BROKERS? _____ HOW MUCH THROUGH EACH BROKER,
IF MORE THAN ONE? _____ DO YOU BORROW CONTINUOUSLY IN OPEN MARKET? _____

FOR MERCHANDISE? _____ OTHERWISE? _____ DO YOU EVER BORROW ON COLLATERAL? _____

DO YOUR SELLING OFFICES OR BRANCHES BORROW LOCALLY? _____ IF SO, IS AMOUNT INCLUDED IN TOTAL BILLS PAYABLE? _____

FORM OF STATEMENT FOR FIRMS—SECOND SHEET

ACCOUNTS PAYABLE

TERMS OF PURCHASE? _____ DO YOU DISCOUNT AND ANTICIPATE? _____ NAME A FEW CONCERNS FROM WHICH YOU
PURCHASE LARGELY _____

DEPOSITS

ON TIME OR DEMAND? _____ FROM WHOM? _____ %

MORTGAGES—SEE BELOW UNDER LAND

ACCRUED LIABILITIES

ITEMIZE _____

PLACE HERE ANY COMMENTS ON MISCELLANEOUS LIABILITIES _____

TIME OF YEAR CURRENT LIABILITIES NORMALLY MAXIMUM? _____ MINIMUM? _____

NET WORTH

GENERAL PARTNERS			SPECIAL PARTNERS		
NAME	AMOUNT CONTRIBUTED	OUTSIDE NET WORTH	NAME	AMOUNT CONTRIBUTED	UNTIL

DATE OF PARTNERSHIP? _____ DATE OF EXPIRATION? _____

IS THE FIRM, OR ANY MEMBER THEREOF, CONNECTED WITH ANY OTHER LINES OF BUSINESS? _____

RESERVES

ITEMIZE _____

SALES

(NET) FOR LAST FISCAL YEAR? _____ DOES THIS INCLUDE SALES OF OR TO SELLING HOUSES AND BRANCHES? _____ DOES IT
INCLUDE SALES BETWEEN DEPARTMENTS, AS FROM WHOLESALE TO RETAIL? _____ LOSSES FOR LAST FISCAL
YEAR? _____

INSURANCE

ON MERCHANDISE? _____ ON PLANT? _____ CREDIT? _____ LIABILITY? _____

GROSS PROFITS ON SALES FOR LAST FISCAL YEAR

GROSS PROFITS FROM OTHER SOURCES

COST OF ADMINISTRATION, INCLUDING INTEREST, TAXES, INSURANCE, BAD DEBTS, REPAIRS, MAINTENANCE, DEPRECIATION, AND
ALL OTHER EXPENSES OF EVERY KIND

NET PROFIT

LESS WITHDRAWALS BY PARTNERS

GAIN FOR YEAR

HAVE THE BOOKS BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT? _____ IF SO, GIVE NAME OF FIRM AND DATE OF AUDIT _____

LAND

DESCRIPTION	LOCATION	ASSESSED VALUE	APPRAISED VALUE	MORTGAGES	MORTGAGEE	PER CENT.	EQUITY

IS TITLE IN FIRM NAME? _____ BY WHOM APPRAISED? _____ WHEN? _____

FIRM NAME

DATE SIGNED _____ BY _____ (MEMBER OF FIRM)

OFFICE ADDRESS _____ BRANCH OFFICES _____

LOCATION OF PLANT OR PLANTS _____

DESCRIBE NATURE OF BUSINESS _____

NAME OF BANK OR TRUST COMPANY (PRINTED HERE IN RED OR BLACK)

FOR THE PURPOSE OF PROCURING CREDIT FROM TIME TO TIME WITH YOU FOR OUR NEGOTIABLE PAPER OR OTHERWISE, WE FURNISH THE FOLLOWING AS A TRUE AND ACCURATE STATEMENT OF OUR FINANCIAL CONDITION ON _____, 19____. WE AGREE TO AND WILL NOTIFY YOU IMMEDIATELY IN WRITING OF ANY MATERIALLY UNFAVORABLE CHANGE IN OUR FINANCIAL CONDITION, AND IN THE ABSENCE OF SUCH NOTICE OR OF A NEW AND FULL WRITTEN STATEMENT, THIS MAY BE CONSIDERED AS A CONTINUING STATEMENT AND SUBSTANTIALLY CORRECT; AND IT IS HEREBY EXPRESSLY AGREED THAT UPON APPLICATION FOR FURTHER CREDIT, THIS STATEMENT SHALL HAVE THE SAME FORCE AND EFFECT AS IF DELIVERED AS AN ORIGINAL STATEMENT OF OUR FINANCIAL CONDITION AT THE TIME SUCH FURTHER CREDIT IS REQUESTED.

ASSETS			LIABILITIES		
CASH			NOTES PAYABLE		
BILLS RECEIVABLE (NET)			ACCOUNTS PAYABLE		
ACCOUNTS RECEIVABLE (NET)			DEPOSITS		
MERCHANDISE			BONDED DEBT		
LAND			MORTGAGES		
BUILDINGS			ACCRUED LIABILITIES		
MACHINERY—FIXTURES				TOTAL	
			CAPITAL		
			SURPLUS—PROFITS		
			RESERVES		
TOTAL				TOTAL	

[illegible]

6

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[illegible]

ARE ANY OF ASSETS UNAVAILABLE FOR PAYING DEBTS? _____ LOSSES _____

NET WORTH

GENERAL PARTNERS			SPECIAL PARTNERS		
NAME	AMOUNT CONTRIBUTED	OUTSIDE NET WORTH	NAME	AMOUNT CONTRIBUTED	UNTIL

NET SALES

LAST FISCAL YEAR		THIS FISCAL YEAR		PERCENTAGE	
COST OF SALES	100.00	100.00	100.00	100.00	100.00
GROSS PROFIT	100.00	100.00	100.00	100.00	100.00
INTEREST, TAXES, DEPRECIATION, ETC.	100.00	100.00	100.00	100.00	100.00
WITHDRAWALS BY PARTNERS	100.00	100.00	100.00	100.00	100.00
GAIN FOR YEAR	100.00	100.00	100.00	100.00	100.00

HAVE THE BOOKS BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT? _____ IF SO, GIVE NAME OF FIRM AND DATE OF AUDIT _____

ADDRESS AND DATE _____ FIRM NAME _____

BY _____
(MEMBER OF FIRM)

the issue of notes, which are liabilities of the issuing banks, but are promises to pay on demand without interest. As long as confidence exists these notes will be preferred to actual money. While there is advantage in the loaning of deposit credits, there is also danger unless a safe reserve is always kept behind such loans. It is here that banks are tempted, in what seem to be prosperous periods, to let the reserve fall below what may be considered safe for the community and state of business, in order to gain the added profit. What may be a safe reserve must depend upon the development of banking and on the intelligence and confidence of the community. To be solvent a bank need not depend for its solvency so much on actual cash on hand as on the actual worth of its instruments of credit. A sufficient amount of money, however, must be kept to meet demands for it.

BANKS AND BONDS.—It is only in recent years and because of the marvellous increase in the wealth of the nation that banks have been compelled to seek outside investment for large amounts of surplus deposits. Based on the investigation recently conducted by William C. Cornwell, it is ascertained that to-day approximately 17% of the total amount of deposits in the banks of the United States is invested in bonds. Quoting from Mr. Cornwell's report: "Bonds lend themselves to two distinct uses for bankers; as a reserve and as an investment. Nearly all experienced bankers recognize the value of bonds for temporary investment of idle funds. In creating an added reserve of some sort the consideration of the soundness of the security presents itself first; next convertibility—the question of income being subordinate to both of these. Where investment alone is considered, convertibility does not enter as a factor to so large an extent. Soundness and rate of interest are then the two requisites, but for reserve purposes, as has been said, convertibility is the primal consideration, next to safety."

Of the different classes of bonds held by banks either as an investment or as secondary reserve, it is interesting to note from Mr. Cornwell's investigation the following figures: 38% of the total amount so invested was in high class listed railroad bonds; 42% in municipal bonds; 14% in United States Government bonds and 6% in public utility and industrial bonds. It can be gathered from this, therefore, that in the opinion of those bankers who invest in bonds, municipal bonds are the most desirable. In Ohio, for instance, where municipal issues are exempt from taxation, the banks have invested over \$89,000,000 in this class of security. In Connecticut on the other hand the banks have invested very largely in railroad bonds, approximately 90% of their total bond investment being in that class of security. One reason for this is that the laws of that State governing investment of the funds of savings banks are liberal and permit of such investment, and also because the yield is higher than that of municipals with practically the same degree of safety. In the State of Vermont the banks make practically no investment in railroad bonds because the laws of that State prohibit the investment of funds in railroad bonds.

The investigation conducted by Mr. Cornwell referred to develops the fact that approximately 16% of the banks in the United States are engaged in the bond business and that 37% approve the idea of a bank maintaining a bond de-

partment. This feature of the banking business is of comparatively recent development and came about by reason of the fact that bankers noticed that many of their depositors were removing funds from their accounts and investing them in securities which returned them a larger rate of interest than they were securing from the bank. As a result of this movement most of the banks in the larger cities now have bond departments and the transactions of these departments exert considerable of an influence upon the bond market. For instance, the bond department of one of the larger New York trust companies has developed so extensive a business that its daily bond transactions have at times exceeded those on the New York Stock Exchange. That securities handled by such institutions, which can properly and thoroughly investigate an issue before purchasing, are thoroughly safe investment for individual investors goes without saying.

Loans and Discounts

Loans and discounts are loans and discounts regardless of the amounts involved or the size of the institution in which such business is done. The National Bank Act and the laws of most States restrict loans to be made by any bank to any one individual or interest to a limited amount of the bank's capital. In the case of National banks the loan limit is ten per cent. of capital and surplus and in no case more than thirty per cent. of the bank's capital. The idea of such limitation is that loans should not only be presumably secure in themselves, but that the additional safety of the law of averages should be applied to all. In other words, no bank should be permitted to put too many eggs in one basket.

Perhaps the worst weakness that any banker can possess is lack of ability to clearly distinguish between his own money and the money of his depositors. Such discrimination requires something more than conscience. It requires appreciation of difference between tangible and intangible assets, between crops and land, between manufactured products and manufacturing plants, between commercial credit and invested capital, between lending money and going into partnership.

Whatever may be proper transactions for savings banks and trust companies, it is the sole province of commercial banking to bridge over the period between seedtime and harvest, to facilitate the transformation of raw material into finished products and to provide the connecting link between mercantile sales and collections. It is not the province of commercial banking to own mortgages on farms, however fertile; to be partners through overloans or otherwise in manufacturing and merchandising, however profitable; or to control mines, however rich.

There should be clear distinction between banking and promotion. Both are useful and honorable, and both are harmless when kept apart, but when mixed they make an explosion. Disaster follows defiance of this inexorable law of financial chemistry.

ESSENTIALS IN GRANTING CREDIT.—President James G. Cannon of the Fourth National Bank of New York recently gave a prize for the best essay on "The Essentials in Granting Credit." The prize was won by William H. Kniffen, Jr., who wrote as follows:

LOANS AND INVESTMENTS

"Nature and Functions of Credit.—Credit is the life blood of business, one of the essential elements in banking and finance. Without it, the present high state of business would not have come to pass, nor could it long continue. Credit constructs railroads, opens mines, spans rivers, paves streets, improves farms, builds homes, moves the commerce of the country and wages war. 'Credit,' says Webster, 'has done more a thousand times to enrich the nations than all the mines in the world.'

"Credit transfers large sums cheaply. It employs capital productively. It enlarges a man's earning powers, and through its use, the lender and borrower meet to their mutual profit. Credit is a far better instrument of production than an equal quantity of coined money; for, while money is an indispensable denominator of prices, and the medium of the smaller exchanges, credit is the instrument of larger exchanges and larger production. Moreover, as an instrument, it is economically costless and not like money with a commodity value and expensive.

"In political economy, credit is power to borrow; the ability to command capital. As nature abhors a vacuum, so capital abhors idleness, and it rapidly and automatically seeks profitable employment. Where the credit system is highly developed, active and profitable demand for capital exists. Where credit is undeveloped, we shall find business still in a crude state, wages small, and finances generally in an unsatisfactory condition.

"In law, credit is the present right to a future payment; the right to demand something from someone at a stated time. Thus, when a bill of goods is sold, the legal title passes to the buyer, and the seller simply holds the right to collect the equivalent at the time and place appointed. He can re-take the goods only under certain conditions, and his principal right is one of settlement. He can sell this right and the holder in due course will have good title to this right of enforcement.

"In banking and business, credit is the estimate of the ability and willingness of an individual, firm or corporation to meet its business engagements. This estimate was formerly based chiefly upon (1) Reputation and (2) Capital. But with the advent of the mercantile agency and the credit department, a more accurate and trustworthy basis of credit has been formed, thus: (a) A closer examination as to the character of the man and the business; (b) Total net worth, the element of contingent liabilities being given due consideration; (c) Other facts bearing upon the probability of the success or the failure of the enterprise.

"The basis of all such credit is confidence. In fact, every modern financial system is built upon confidence, and our whole financial structure has become a system of credit clearings—a system of substituting the token of confidence for the payment in money. This confidence must not only assure that a man is willing, but is also able to meet his engagements; not only able, but also willing.

"Essentials of a Good Loan.—Good credit is the bed rock of business success; poor credit is the quick sand of disaster. As a general statement, that credit is good which is based upon an exchange of commodities. The only exception are those loans which are in the nature of an accommodation, and yet have behind them the strength and

financial soundness of one whose name and credit standing are sufficient to offset the lack of an exchange in values.

"The bank is not supposed to furnish its patrons with permanent working capital, and good banking credit is based upon loans made after due consideration of the borrower and his standing and supported by collateral, whether pledged or not, that is subject to prompt and full liquidation. An authority on banking states that a well managed bank should have 20 per cent. of its investments in high grade securities; 20 per cent. in commercial paper which it is under no obligation to renew and purchased in an open market; and 60 per cent. in loans to its customers.

"The bank must meet its obligations as the merchant meets his—by the maturity of its credits; and the credit that does not promptly redeem itself is unsound. The greatest measure of safety in the credit system lies in the fact that no great part of the outstanding obligations will have to be met at any one time. Experience has proven this beyond peradventure, and when a quick demand for unusual redemption occurs, panic results and the credit system collapses. It is needless to add that good credit does not consist in the banker lending to himself. He cannot be a judge of his own affairs. The Comptroller of the Currency has digested the causes of failure of 418 banks and find that 214 were caused by excessive loans to officers and directors, fraudulent managements and embezzlement.

"Elements of Sound Credit.—By weight of authority, it is conceded that in granting credit, three elements must be considered, namely:

- | | | |
|-----------------|-------------------|-------------------|
| (a) Character | (b) Capacity | (c) Capital |
| (a) Reliability | (b) Capability | (c) Resources |
| (a) The man | (b) The methods | (c) The means |
| (a) Moral risk | (b) Business risk | (c) Property risk |

"Every application for credit does not possess all three, nor does it need to. But good credit, however, depends upon the degree in which these elements enter into the risk. The man with character, but no ability or capital is doomed to failure. He has neither funds of his own nor the ability to safely use the funds of others. Good intentions never pay bills. He who has ability, but no character, is a bad risk—he may use his ability to defraud. Lack of ability and capital accounts for three-fifths of the business failures. The business that 'turns over' frequently can run with less capital than that which must be done on long credit. But even though his capital be small, the man with character and ability will be a safe risk. The ideal risk is, adequate capital, unimpeachable character, and sound business methods.

"The Man—the Moral Risk.—Character means more than mere honesty. It means habits, companionships, past record, antecedents. Business character is business reputation, built up by long years of honest dealing. The man who claims to be honest must prove his claim by squaring himself with the world and keeping himself so. In the co-operative credit banks of Europe, which have been eminently successful in the granting of credit, character is made the basis of all loans, and the losses have been remarkably few. While credit deals less with men than with things, the man must be analyzed as well as his possessions, for the statement, being a matter of honor (unless made by an independent audit) must be characterized by good faith.

LOANS AND INVESTMENTS

“His Methods—the Business Risk.—It is not enough that a man be good—he must be good for something. We test his ability by the manner in which he conducts his business, and by the character of that business. Is it, first of all, a legitimate business and sound, or illegitimate and full of risk? It is stable, or subject to sudden fluctuations—one that the whims of fashion may jeopardize over night? Has the owner demonstrated his ability to manage a business; does he manage this one well? Has he built up himself, or did he inherit it? Is he experienced or is he a novice? Experience must precede the employment of capital, else the latter may be lost while the former is being acquired. Is it well stocked and well located? Are the profits ample, and are the expenses reasonable? Does he grant credit with care or indiscriminately? Does he over-buy, over-trade, over-trust? Is he prompt in his collections and prompt in his payments?

"His Resources—the Property Risk.—Behind every good loan, there must ultimately be property, tangible and convertible into money without great cost and undue delay. It is not enough that there be stock—it must be salable and seasonable, and of such nature as to help, not hinder, the business. The kind is as essential as the degree. It is not enough that there be book accounts—they must be collectible. Many a man has failed with a fortune on his books. A large business does not necessarily mean a safe business, its very largeness may carry it to destruction. Is the capital borrowed or inherited, and if so are there any 'strings' to it? Is the capital ample? Will the lack of money make over-borrowing necessary, and burden the business with too heavy interest charges? It takes money to do business, and while a large amount of ready cash need not and should not be idle in the bank, it should be quickly available by the maturity of obligations to meet current demands.

“The Statement—the Borrower’s Estimate of Himself.—Modern credit is based upon statements prepared with the end in view of showing the true condition of the business at a stated time. Unless made by an independent auditor who has no interest, aside from accuracy, it resolves itself into a man’s estimate of himself. Its purpose is: To reduce losses; to minimize risks; to assist the worthy; to eliminate the unworthy.

"The statement consists of two parts, (a) Assets (from the French 'Assez,' meaning 'enough'), and (b) the Liabilities. After making due allowance for the shrinkage inevitable in all business, the assets must equal or exceed the liabilities or a state of insolvency exists.

“The assets readily divide themselves into (1) Liquid or quick assets, such as cash on hand and in bank, securities, collectible book accounts, bills receivable, marketable merchandise, and any other resources that may be turned into money or used as security. (2) Fixed, or non-liquid assets, such as real estate, furniture and fixtures, machinery, horses and trucks, etc.

“The question, therefore, to be decided in analyzing every statement is this: Is there enough? Not, will this man pay his obligations; but can he meet his obligations as they fall due? Not, has he made money in the past; but will he continue to make money in the future? Is it a ‘going’ concern and likely to continue so?

FIGURE 2.—COLLATERAL LOAN REGISTER

[illegible]

LOANS AND INVESTMENTS

"No two statements are alike and no general rule will apply to all; each application must be judged by itself. It is needless to say, however, that in granting credit, neither friendship, religion, politics, social or family ties, or sentiment, should play any part—simply the cold, critical, analytical judgment that comes from experience, observation and study.

"The weakness of the statement lies in the fact that the borrower is tempted to unduly appreciate his assets and depreciate his liabilities. And it is the credit man's particular business to see that the assets are not unduly magnified. Current liabilities cannot be met from fixed investments such as real estate and machinery, and the burden of carrying the business falls upon the liquid assets, leaving it to the fixed assets to add strength and stability to the structure—backbone as it were. Some credit men are of opinion that the fixed assets should be eliminated from consideration entirely; while others hold that they should be scaled at least 50 per cent. from the borrower's figures, and then regarded as security only. But however this may be, if the fixed assets bear a large proportion to the liquid, they are an element of danger and tend to weakness; if small, they tend to strength.

"Just the proper proportion of capital to volume of business; whether or not the business 'turns over' promptly and profitably; whether accounts receivable are too large or too slow in maturing, can only be learned by experience. To correctly judge these elements in the granting of credit is to be a good credit man. And in passing upon credits, it must be realized that it is the business of the bank to loan money, and the credit that is refused because the applicant's statement has been incorrectly analyzed has worked an injustice to the bank and perhaps an injury to the borrower. Profits arise solely from sound credits; losses from the unsound. The credit man must therefore play a double rôle. For the sake of his bank, and for the sake of the borrower, he must accept the good; and for the sake of his bank, irrespective of the borrower, he must reject the bad. And only training and experience can teach him to distinguish the one from the other."

CREDIT DEPARTMENTS.—The credit departments of banks, as a rule, possess no particular authority. They are simply bureaus of ready information. The gathering of facts, however, may give impressions that are valuable to officers who make loans. A well equipped credit department is therefore an important adjunct to an up-to-date bank. While methods differ with the size of various institutions, the principle of obtaining a thorough knowledge of borrowers is common to all. The files of papers and memoranda relating to borrowers are best kept in a vertical filing cabinet in manila envelopes about 7 x 10 inches in size, arranged alphabetically. In these envelopes all reports, interviews, statements, and memoranda can be kept. It is well to take some history of an account when it is opened, and should the account close the reason ought to be recorded.

Business statements furnished by borrowers as a basis of credit are often misleading, for the optimism of manufacturers and merchants inclines them to exaggerate the value of their resources. Credit is usually extended on the

strength of quick assets, and many good judges feel that the ratio of quick assets to liabilities should be about $2\frac{1}{2}$ to 1. While a large number of borrowers furnish statements in their own language, the use of printed forms supplied by

FIGURE 3—COLLATERAL ENVELOPE

[illegible]

banks is becoming general. A set of statement forms devised by the American Bankers Association is reproduced in this lesson pamphlet.

It is desirable to have agency reports, ratings, statements, interviews, average balances, highest discount extended for the year in "own paper" and "receivables,"

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FIGURE 1.—SUITABLE FC

[illegible]

amount of "bought paper" and "call loans," records of other bank accounts, records of any inquiries, and officer's or director's opinion, in connection with any business statement, with a record of what is considered quick assets in different colored ink. This, of course, calls for much thought, for what is a quick asset in one kind of business is quite a slow one in another. In fact, one should have all he can find out, for it is better to err on the side of asking too much than too little. All this information should be kept as up-to-date as possible, and from year to year for comparison. The weekly sheets of commercial agencies and trade agencies should be carefully perused for changes among dealers or their customers. Mercantile agency reports certainly have great value. Though far from being infallible, they are a great help, seldom speaking ill without good cause.

A valuable adjunct in determining the continuance of credit with any customers is a record of their loans. Such record is best kept by a loose leaf system, because this is the only way in which the accounts can be kept together. It should show a record of all paper discounted, whether paid by maker, protested or paid by a dealer, amount unmatured, or how large a loan has been given. "Own paper" should be recorded in a different colored ink. It stands out more plainly and saves the work of an extra column. While one or more of these records alone may not be a guide to a credit line, still, taken together, they are buoys to help over financial seas; some of them silent, like the spar buoy, but others loud and clear. In order, however, that the banker may avoid the two extremes—the error of extending too much credit and the error of extending too little—something more than the ordinary statement of assets and liabilities is required, and particular attention is called to the fact that it is not the customer with intent to deceive who is most dangerous. It is the customer who in all sincerity is himself deceived. In analyzing business statements, therefore, the banker must get below the surface. Here are some of the questions that must be answered.

1. Does the business under consideration occupy a legitimate field, and if so, is it firmly entrenched in such field or is it vulnerable to attack by enemies?

2. If a manufacturing concern is the demand for its products permanent, or does the demand depend upon some temporary fashion or fad?

3. Is the business a monopoly, or is it open to competition in its own line or along similar lines that may seriously affect it?

4. If the business purports to be protected by patents, are such patents really good for anything, and, if so, how long before their expiration?

5. Are the location of the business and the condition of its plant such as to insure economical operation?

6. Who are the proprietors, and do they understand their business—or any business? Are their knowledge and experience largely technical, or do they understand the ways of the financial world?

7. Is the plan of accounting employed such as will show the actual condition of the business up to date, or do the statements taken from the books represent its condition six months or a year previous? Do the books show a proper distribution of cost, and are there proper reserves for bad debts, depreciation and contingencies?

8. How do the people who conduct the business stand with their customers, and with the general trade?

9. What is the relationship between the managers and their employees?

10. Is the loan desired and required for the legitimate purposes of the business, or are the proceeds to be used in some other way?

LOAN AND DISCOUNT RECORDS.—The word “discount” as used in banking refers to interest deducted or collected in advance. In discounting interest-bearing paper banks generally discount the interest as well as the principal. For example, a note of \$1,000 for one year at six per cent. would amount to \$1,060, which sum discounted would leave net proceeds of \$996.40 and not \$1,000. While the word “loan” is a word of broader meaning than “discount” as the terms are generally defined in dictionaries, banking practice has resulted in the application of the word “discount” to practically all loans to customers on commercial paper, and the term “loan” is generally restricted to demand

OF DISCOUNT REGISTER

[illegible]

City notes as they mature should be credited by the note teller who gets payment for them to "Bills Discounted." If a note is paid before it is due it should be credited by the

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note teller to "Bills Discounted" and deducted from the tickler; also deducted from the account on the "Liability Ledger" by the discount department.

Out-of-town notes are charged on the day they are due to the bank to which they are sent, and credited to "Bills Discounted" through a record known as a journal. The collection department should get these notes about a fortnight before due dates to forward them for collection. Occasionally a note has to be sent to a point at which the bank has no account. These notes are charged to an account called "Transit Account" and "Bills Discounted" is credited. When the draft in payment for the note is received it offsets the charge to "Transit Account." This plan disposes of all notes that are due, and takes them from "Bills Discounted Account." The collection department looks after the prompt advice and payment of paper given to it for collection. If an out-of-town note is protested it is credited back to the bank to which it has been charged and collected from the endorser.

All notes passed should be kept in the order in which they are recorded on the "Discount Register" or discount counter for examination by the Board of Directors at the regular meetings. A record telling how much is offered, the total each dealer owes in "own paper," and "receivables;" how much will be due the following week, and the average balance for six months should accompany the notes. A copy of such record should be furnished to each director or member of a discount committee.

The notes should be all compared with the record on the ticklers, carefully read and timed again, and all assorted in order of due dates, the "city" kept separate from the "out-of-town," and filed away. Each note should be endorsed with a stamp, so that the note and collection departments can readily distinguish a discounted note from a collection note.

It is a good custom each week to make out a "Maturity Sheet," showing a list of notes due during the following week for which a part renewal may be asked. Record on this sheet makers and endorsers, amount, when due, total due on "own paper" and "receivables;" also the average balance for the past six months, and present balance. This enables the officers to look the matter up before the request for renewal is made.

Occasionally officers or directors want to know the amount of unearned interest, that is, the amount that would be charged to "Profit and Loss" if every note were rebated. When there are a few hundred notes the rebate is found by calculating each note. When a department has a very large number, this can be figured by first finding the average rate by multiplying each rate by the total discounted at that rate, adding the results together and dividing by the total amount under discount. Then find the average time by multiplying a total of each day's notes by the number of days they have to run, add the results of these totals and divide by the total amount under discount. Having the average rate, and the average time, one can easily tell the amount of unearned interest.

In a book with an index, having spaces ruled off on each page, keep a "Profit and Loss Record" of unpaid paper. Have each space numbered. In these spaces record a full

description of each item—to whom it has been turned over for collection, if any part payment is made, etc. The items themselves, or a copy if they are out of the bank's possession, should be placed in envelopes and these envelopes marked with the same numbers and the space in the "Profit and Loss Record." These envelopes should be filed numerically, so that the paper can be readily located however many years it may be old. The envelopes save the items from wear and tear.

What banks commonly term "Loans" are usually secured by some evidence of actual property such as bonds, stocks, warehouse receipts, bills of lading or promissory notes. In the case of loans with collateral the note should give power to sell collateral for default of payments of interest or principal, and collateral should be in proper shape for delivery if sold. In the case of bonds they should be to bearer or if registered a power of attorney should accompany them. Stock certificates should be assigned in blank either upon the back of the certificates themselves or upon a blank assignment to be attached to such certificates. While no loan would be made if the borrower were expected to fail, still it is necessary to be prepared for any contingency. All securities should be carefully scrutinized to be sure that they are what they purport to be.

Loans are usually made by some duly authorized bank officer or some member of a Loan Committee appointed by the Board of Directors. When any loan has been duly approved the transaction should be noted on some form of loan blotter and then entered upon the principal book of the loan department, which is known as a "Loan Register," previously described and shown in Figure 2. Collateral is usually kept in some form of "Collateral Envelope" such as the one shown in Figure 3, on page 11. On the blotter should be noted all loan transactions for the current day, loans made being entered on one side and loans paid on the other side. On the "Loan Register" should be spread all the facts of any loan including a list of collateral, and each loan should be numbered. The number and page may also be noted on the loan envelope to facilitate its identification.

The description of collateral should be clear and exact, either on the note or the loan envelope, or in a letter, and if either of the latter methods is used the note should refer to collateral as listed in such letter of same date or such envelope of same date. In such cases the note and letter or note and envelope together would become the contract between the borrower and the lender as would also any further letters or papers referring to the exchange of collaterals. For the preservation of all papers in connection with each loan an envelope large enough to hold a loan envelope can be used and all papers filed into it behind the loan envelope, leaving only in the loan envelope such papers as are to be returned to the borrower, viz., the note, collaterals, and blank assignments of stocks or bonds.

From the "Loan Register," upon a "loan slip," a copy of the record can be made, the loan slip serving to keep a running record of the loan by showing changes of collateral, changes of interest, partial payments of interest or principal, and changes in the value of collateral. To permit changes in value of collateral the price and value should be written in pencil. These loan slips may be kept in alpha-

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betical order, or in classes order. Such an index could be enlarged upon to show the amount of loans, when paid and remarks and postings to this index could be made each morning from the blotter of the previous day. A proof of the loan slip should be made often, both to ascertain that all partial payments have been noted upon the slips and to be sure that paid loan slips have been removed from the live loans. The proof should be with the amount upon the General Ledger.

In order to correctly ascertain interest earned to a certain date, such as the end of the month, or to be used in connection with report of condition of the bank, either computing interest on each loan or keeping total amount out at each rate every day are the only accurate ways of figuring it. The second method could be handled somewhat like a balance ledger with balances extended down from day to day, postings being made from the loan blotter. The total of the various columns should equal the footing of the "Totals" column to show that the work is accurate and then it is a simple matter to make the calculation of how much has been earned at each rate. The total of interest earned less the amount collected during the same period would show interest still outstanding.

COMMERCIAL PAPER.—In the evolution of the banking and credit system during the last twenty-five years, the practice has grown up of firms and corporations borrowing money in the open market on their single name paper. "It used to be the fashion to criticise single name paper," writes James G. Cannon, "as it was assumed that raising money in this way was a kiting operation. Many things have brought about a change in public opinion and to-day two-thirds of all the paper purchased by our banks, it is fair to say, is single name. Single name paper makes no pretence to being anything else than it appears,—a simple promise to pay, based on a statement of facts which every intelligent banker should try to obtain for himself. The system of borrowing on single name paper is particularly confined to our American market, because our banking system is so entirely different from the European banking systems. In European countries with their system of Central Banking and their public discount markets, the merchant draws his bill on a bank to whom he is accredited, this bill is accepted by the Bank, and has become a current article of sale in the public discount market. In the absence, therefore, of this system of drawing on a bank with whom the client is accredited, the merchant in this country is obliged to issue his single name paper, and the single name paper has by necessity and by experience become one of the most valuable assets of the commercial banks of this country.

"I think it may be well to also consider from an historical standpoint some of the reasons for this method of borrowing. The open market for single name paper originally was confined to New York City, with considerable purchases of paper in Boston, Philadelphia, and throughout the Eastern States; and it has only been during the last ten years that the market for this class of investment by banking institutions has broadened. Now the banks of the West and Southwest have entered the field as commercial paper buyers, and the only part of our country at the present time which does not make investments of this character to any

great extent is the Southern States. At first the selling of commercial paper was confined almost exclusively to the dry-goods trade in New York, as many houses in that line were old and well-established, and those especially which did a large commission business and which made large advances to their mills were obliged to seek credit outside of their regular banks. The banking resources of the country were not then so large as now, and no individual bank could give the dry-goods merchants in New York or Boston any considerable line. It, therefore, became the practice of some of the best men in that trade in New York to call upon banking institutions other than their own and offer their concern's paper, either in the form of acceptances of their mills or straight single name paper. At that time all of this business was done on what might be called 'acquaintance sale.' One bank officer or director was acquainted with the merchant who wished to sell his paper, and when the bank had money to invest the officer or director would either ask the merchant for his paper or that gentleman would call and offer his notes. It was not until the period from 1890 to 1895 that credit departments in banks were generally organized.

"It was a few years later when banks more generally came to recognize the note broker as a necessary adjunct of the banking business. By the introduction of modern credit methods the banks soon found the solicitation of paper direct from so many firms, corporations, and individuals had its disadvantages, as, for instance, one concern might be putting its paper out through many institutions, making it difficult to keep track of their operations. The note brokerage business at first in New York City was confined to only two or three houses (there are only about a dozen in the business in New York at present) who solicited paper from the merchants and sold it as opportunity presented itself, at a given rate, charging a brokerage fee. At that time the brokers did not usually advance any large sums to the merchant, only holding the paper for sale and giving the proceeds to him when the note was purchased by a bank. Since the introduction of modern methods whereby dealers in commercial paper as well as banks, have become more familiar with the details of the business of their customers, through signed statements, etc., the custom has become general for brokers to buy paper outright. This makes the business much safer for the banks, as it puts the note broker between them and the maker of the paper, and makes the broker exercise greater care in the selection of the names which he sells to the banks. This method also required the note broker to have large capital as well as credit, and placed the business upon a very much higher plane, until now any bank officer who deals with a second-rate broker has only himself to blame for any losses which are incurred through him. Losses are made through dealing with the larger and stronger brokers, but by avoiding the irresponsible concerns the element of risk is greatly reduced.

"I would suggest also that we should not buy the paper of firms or corporations which put their paper out through two or more brokers. It may be that the field East or West on a given name may be divided, but when we purchase a note we should have it distinctly understood by proper inquiry who the maker considers his broker is, and we should

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see that he strictly confines himself in selling his paper to one concern, or two at the outside, but not in the same market or territory. Where two brokers are used the makers of paper should permit them to exchange confidences and each should know, if occasion demands, the amount of paper out through the other of any given name handled by them jointly. If the maker changes his relations see to it that you are promptly notified. Banks buying paper and merchants disposing of their obligations, cannot be too careful in their scrutiny of the character and standing of brokers through whom the transactions are made. Good judgment and ample capital should be combined with a keen sense of justice and honesty in a first-class note broker. Of course, any concern has a perfect right to change brokers, but they cannot expect banks to buy their paper from half a dozen brokers nor can they treat their paper as an article of merchandise. If we insist that parties selling their paper on the open market shall confine themselves strictly to one or two brokers, according to the geographical conditions of the sale of their paper, we can always find, by confidential inquiry, the exact amount of paper outstanding; and by securing a careful statement of the condition of a particular concern's affairs, and comparing this with the data received from the broker, you will have, on a given date, a check upon false statements which is better than any certification by Clearing Houses or other outside agencies. When we purchase paper on the open market we are entitled to know all the note broker knows, and all other information we need the maker of the note should supply. Co-operation with the broker in securing information both for him and from him is an additional safeguard. Help him to search out the facts and you will reduce your risk as well. Make a good note broker your confidant, pointing out to him any weak spots that you find and get his assistance in every way possible.

"I believe it is an excellent plan to buy commercial paper on an option, returnable at a given date, so that you may have time to investigate any name you buy and that you may sit down in the quiet of your office and go over the information you have gathered. In this way, if you are not satisfied to retain the paper you may return it to the brokers and receive a check for the proceeds. The exercise of the option privilege to return paper bought should be strictly confined to the desire on the part of the bank not to assume the credit risk. Bank officers should be careful not to return confessedly good paper on account of an advanced or tightened money market or for any reason other than the undesirability of the risk from a credit standpoint. Never solicit paper direct of concerns which are selling through brokers. This is courting trouble back-handed, as you are causing the concern to put out paper which cannot be kept track of, and you will be called upon by them very often to take paper when you cannot very well say NO. They will claim that as a favor to you, at some given time, they gave paper to your bank, and now as a favor to them you must take it. In the meantime, you may have discovered something about them which you would not care to disclose to them, and it places you in a very awkward position. Insist on the note broker acting as a go-between and if for any reason you do not desire to keep a note which you have

taken on option and you return it to the broker, you have made no enemies and the maker is none the wiser.

"Much has been said about note brokers soliciting a bank's customers and taking away business from the banks, thus making the obtaining of credit too easy. I disagree with this attitude altogether. I would be glad to have every one of my customers sell their paper on the open market, as I feel that now most all of the good banking institutions of this country have credit departments with keen, active credit men in charge. If my customers can stand the scrutiny of a good note broker and anywhere from twenty-five to fifty keen credit department men, besides my own examination, then I maintain my risk is very much less. I would say to all good merchants—Sell your paper, get the best rates obtainable, keep a good balance in bank 'without interest' and when you can not sell your paper in the market, your bank will discount for you in proportion to the non-interest average balance you have kept with them.

"Every firm or corporation which sells its paper should use great care in making it mature in well-distributed amounts in any given month. When a merchant sells his paper he is much more apt to use prudence regarding his own credits, as his paper is scattered all over the country and he does not know who holds it; consequently he must be prepared to pay it at maturity. Whereas, if his paper is held by a given number of banks and his customers are delinquent and come to him desiring further time, he goes to his banks and asks for a renewal, with the result that his portfolio is likely to be filled with slow accounts and the bank has secured a permanent loan. But by selling paper, I contend that the merchant makes better sales of his own merchandise, makes better collections, and by meeting his paper promptly at maturity keeps the assets of commercial paper buying banks in more liquid condition. If a merchant keeps a large account with you, without interest, and does not call upon you, you can buy other paper and thus keep your resources liquid and your monthly maturities right so that when he comes to you for money and you know he has been investigated by a large number of banks besides your own, you can permit your own commercial paper which you have purchased to fall due, give the money to your customer, and you feel a degree of security about your assets which you have never had before.

"A merchant who sells his paper must keep his assets clean and his stock of merchandise in salable shape in order to maintain the highest credit. One of the great experiences of the last panic was the splendid liquidation of commercial paper, giving to the banks which held it millions upon millions of dollars to in turn loan to their own customers, and the makers of these notes which they held were able to pay not only because they had good credit at home and abroad, but because their assets were liquid and their accounts receivable and merchandise could be turned quickly, besides holding their banks in reserve for such an emergency. And this real liquidation resulted, as I have said, because the merchant was aware of the fact that when he sold his paper in the open market, he could not follow it to its resting place and ask for its renewal. The selling of commercial paper by first class concerns has come to stay. There are very few large or reputable concerns doing busi-

ness to-day without borrowing, and I am unable to recall more than one or two instances of a firm or corporation of any prominence which does not borrow directly or use its credit in some other way. There may possibly be a few concerns in this country whose surplus is so large that they find it necessary to use their credit, but such cases are rare exceptions; and in many instances large concerns cannot afford to discontinue the sale of their single name paper on the open market even though they have large sums lying idle in bank, as there are times in the history of all concerns when they need more money than can be supplied by their own capital. If a house, therefore, which has been in the habit of putting out paper ceases to use its credit, it is sometimes misjudged; and I repeat that I believe the present method of issuing single name paper and disposing of it on the open market has come to stay. I am not ready to concur in the idea of forcing the registration of notes, as has been suggested, not only because the process would be cumbersome and expensive, but because it would drive a large number of the best concerns from the open market and we would thus be deprived of the privilege of securing their paper for investment. The largest and strongest borrowers in this country would resist the registration of their notes and the exposure of their business to public eyes. The prime class of borrowers that we should desire to retain would go out of the market by reason of their opposition to this system of registration and publicity. We must recollect also that many large and important borrowers are not confined to our American Banking system for purposes of supplying their financial needs. They are not obliged to come to our American market for the sale of their paper and can circumvent entirely a scheme of this kind by filling their necessities in European markets. I know of many of the best houses in New York City, who under the present system are selling commercial paper in the American market, who do so only because they find it a convenience and not from necessity. These houses of the highest class would resent at once the form of registration and would drop out of the market and supply their wants in Europe. But what good can such registration accomplish as a guide to the amount of liabilities outstanding unless the loans made by customers from their own banks of deposit be registered also? Is it proposed to enforce such registration, and if not, do the framers of the scheme ignore the fact that the losses on bought paper are insignificant as compared with the losses on Banks' customers? No plan will prevent men from being dishonest, but I claim that the percentage of dishonest failures in this country is constantly on the decrease."

Stocks and Bonds

The words "stocks" and "bonds" have until recently been applied indiscriminately to the financial obligations of governments. Some of the early certificates of indebtedness of the United States were known as "stocks" and the same name still clings to certain obligations of the city of New York. In the language of modern finance, however, bonds are certificates of indebtedness and stocks are certificates of ownership. In incorporated companies bonds represent liens on property possessed and stocks represent the prop-

erty itself. In other words, the owner of stock in a company is a part owner in the company and participates in the profits and losses, while an owner of the bonds issued by the same company is interested in the success of the company only in so far as the security of the bond principal and interest is concerned. The bondholder has no part in the operation of the company, has no voice in its management, in short is merely a creditor; while the stockholder possesses a definite interest in the concern in proportion to the amount of stock owned by him. The bondholder is not responsible for the success or failure of the enterprise, while the stockholder, in addition to the privileges which go with his stock, has that responsibility which attaches to ownership.

STOCKS AND THEIR CLASSIFICATION.—When a company or corporation is organized, money which is invested in the enterprise by the organizers is known as capital stock. As a matter of convenience this stock is divided into equal parts, usually of \$100 each, termed "shares of stock." The total amount of stock which may be issued is fixed by the charter of the corporation. To evidence the ownership of these shares, certificates of stock are issued to holders in amounts equal to the number of shares owned. Thus, a stockholder owning \$5,000 worth of the capital stock will have a certificate or certificates representing 50 shares of \$100 each. These certificates specify the number of shares owned, the par value, and certain other facts, as for instance, whether the stock is common or preferred, assessable, full-paid or not. Generally speaking, there are two classes of stock, common and preferred, and the usual relation that each bears to the other is indicated by their respective names.

Common Stock.—Common stock of a corporation as a rule enjoys no special privileges and receives profits only after the preferred stock has received a specified dividend. Unless otherwise indicated any reference made to the stock of a corporation usually applies to the common stock. In some corporations which are unusually successful the common stock pays larger dividends than the preferred stock for the reason that the latter is limited to a fixed per cent, while the former receives such profits as may accrue over and above the specified amount paid the preferred. As a rule common stock has an equal right with the preferred stock in the corporate assets of a corporation should the corporation dissolve. To this rule, however, there are exceptions.

Preferred Stock.—That portion of the capital stock of a corporation which receives the first division of profits or dividends is known as "preferred stock." Ordinarily until this stock is taken care of in the way of profits or dividends, the common stock is not entitled to participate. Preferred stock may be cumulative or non-cumulative. Cumulative preferred stock is entitled to receive dividends for each year during the life of the corporation, ahead of the common stock. That is to say, if the corporation passes a dividend, the cumulative preferred stock must receive that particular dividend before any dividend is paid on the common stock. Non-cumulative preferred stock is not entitled at any subsequent time to the dividend for a year when no dividend is declared. Preferred stock may have preference as to dividends, as to the assets or as to voting power.

Full-paid Stock.—When a corporation has received either

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in cash or other value permitted by law, the full face of stock, such stock is known as "full paid," and that fact is so indicated on the certificates. If not full paid, the holder may be held liable for the unpaid portion unless it is expressly stipulated by agreement that the share may be sold for less than its face value with the understanding that it may be considered full paid. When a corporation has not received its full value for stock which has been issued, such stock is known as watered stock. This term as usually employed applies to stock which has been issued in payment for property or services which have been given a value in excess of their true worth.

Treasury Stock.—Treasury stock is usually stock which has been issued and instead of being sold or disposed of in some other way is held in the treasury indefinitely. Such stock is an asset of the company, but it cannot be represented by a vote in the meetings of the company nor can it draw dividends.

Certificates of Stock.—A certificate of stock to be legal must be signed by the authorized officials of the company and sealed by the corporate seal. It must also specify the number of shares represented and if it is to be registered must bear the name of the stockholder. A certificate of stock is not the stock itself, but merely the evidence of the ownership of the stock in the same sense as a deed to a piece of land is merely the evidence of the ownership of the land. Stock certificates are usually kept in the custody of the proper official, generally the secretary, and bound in a volume with a stub for each certificate. This stub bears the essential facts concerning the certificate. If the certificate is cancelled it must be returned to the company and is attached to its original stub. Certificates of stock may be transferred the same as any other evidence of ownership, but the voting power of such new stock is not transferred until a record of such transfer has been made on the books of the company.

Transfer of Stocks.—On the reverse side of each certificate of stock there is a blank form of assignment and power of attorney to transfer which may be filled out by the owner when the stock is delivered to another person, or merely signed in blank and delivered. In most States stock so transferred carries full legal title, although in a few States registry must be made on the books of the company, to protect the transferee against the claims of a subsequent attaching creditor of the transferor who, serving a writ of attachment upon the company while the stock remains registered in the name of the transferor will acquire superior rights to the prior unrecorded transferee. Furthermore, the transfer of a certificate of stock is not complete so far as the company is concerned until the transfer is recorded on the books. Prior to that time the transferee would have no voice in the management of the affairs of the company and the latter would be protected in paying dividends to the former owner who would still appear as owner of record. A further point to be observed by purchasers or lenders of money upon shares of stock is whether the stock is subject to any lien of the company for indebtedness of the transferor. The laws on this subject in the different States vary greatly; in some States the company cannot acquire such a lien while in other States the company is given a lien or right to refuse transfer until the indebtedness of the owner

of record is satisfied. This right of lien is sometimes expressly given by statute and sometimes created in other ways. It is important, therefore, as a prerequisite of purchasing or giving value for any particular shares of stock to know, first, whether such stock is subject to the company's lien and, second, if so subject, to inquire whether there exists a debt for which the company claims a right of lien.

The full negotiability which attaches to bills and notes does not in all cases attach to certificates of stock. For example, the New York Courts have held that where a stock certificate has been signed in blank and lost or stolen, the real owner does not lose his title to an innocent purchaser from the thief or finder; but where there has been unauthorized dealing with such a certificate, the innocent purchaser is generally protected on the theory of estoppel if the real owner's negligence contributed to the misappropriation. The Commissioners on Uniform State Laws have perfected for State enactment, an act to make uniform the law of transfer of shares of stock in corporations and under this proposed law full negotiability is given to certificates of stock. During the next few years this proposed act will probably become a law in a number of States.

With the development of large business in recent times most of the larger corporations find it expedient—in fact, quite necessary—to appoint a transfer agent who exercises entire supervision of the issue and transfer of their stock; and because of the predominance of New York City as a stock market, a very large percentage of such agents are located in that city. These transfer agents are usually trust companies, by whose selection the corporation is assured of responsibility, reliability and accuracy, all of which are essential. Indeed so thoroughly precise must the transfer agent be that occasionally he is accused of being unnecessarily technical. The reason for the exercise of such extreme care may be found in the following extract from the Court decision in a recent case involving the transfer of securities: "It is the duty of such a corporation, before making such a transfer, to be satisfied of the genuineness of the power presented. In so doing, it must act on its own responsibility and incur its own risk of being misled by forgery or fraud, and it is no answer to a claim put forward by the true owner that the company acted in good faith upon what it supposed to be genuine authority, and without negligence."

BONDS AND THEIR CLASSIFICATION.—A bond has been described as a contract between one party desiring funds and another party having funds to invest. It is a promise by the borrower to pay to the lender at a definite future time with interest a certain sum of money. The proper classification of bonds is a difficult problem, owing to their multiplicity and the ingenuity of financiers and near-financiers in inventing new kinds and new names. Bonds may be logically classified, however, according to (1) the character of the obligor, (2) the purpose or function of issue, (3) the character of security, (4) the conditions of payment of principal and interest, (5) the evidence of ownership and transfer.

Classification According to Character of Obligor.—In accordance with the character of the obligor bonds are classified as Civil Bonds and Corporation Bonds. Civil bonds include government bonds and municipal bonds. Govern-

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ment Bonds include United States bonds, bonds of United States territories and dependences, and bonds of the various States that constitute the Nation. Municipal Bonds include bonds of cities, counties, townships, villages, precincts and tax districts. Corporation Bonds are classified as transportation bonds, public utility bonds, and industrial and miscellaneous bonds. Transportation bonds consist of bonds of railroad, steamship, ferry, express and interurban corporations. Public utility bonds consist of bonds of street railway, gas, electric light, water, water power and telephone corporations. The term industrial and miscellaneous includes reclamation bonds, timber land bonds, real estate bonds and mining company bonds. Federal bonds or United States Government bonds as they are better known, are those issued by the United States Government for public purposes. Their scope naturally is broader than that of either State or municipal bonds. Among the various purposes for which Government bonds are issued may be mentioned interstate canals, wars, improvements in the Philippine Islands and Panama Canal. Most United States bond issues are purchased by big bond houses but occasionally there has been what is known as a popular bond issue, subscriptions to which have been extended to small purchasers. There are certain public duties to be performed by a State government, such as building highways, canals, state schools for various purposes, and charitable institutions, all of which may be the subject of bond issues, the payment of which may be provided by taxation in the same manner as with municipal bonds. The bonded debts of the States vary from nothing in Illinois and Iowa and a few other states to over \$57,000,000 in New York and \$79,000,000 in Massachusetts.

Broadly speaking, any bond issued by the general government or any subdivision of the general government such as State, county or city, is a municipal bond, but in the general acceptance of the term a municipal bond is one issued by a city or town for the purpose of providing funds for public works or improvements thereon. Such bonds may be issued for the erection of a schoolhouse, and thus known as school bonds, but must be paid in the same way as any other municipal, namely, by taxes levied upon the people in the school district. Bonds for street improvement, sewers, waterworks or drainage, issued by a municipality or a subdivision thereof, come under the heading of municipal bonds, and their payment is provided for in the same way. In considering municipal bonds as an investment, the first and fundamental consideration is that of legality. It has sometimes happened, even after all legal phases of an issue have been carefully scrutinized by capable lawyers, that some hidden point has been discovered which has invalidated the entire issue. Generally speaking, a municipal bond issue, in order to be legal must be in accordance with the Constitution of the United States and must be authorized by a specific statute of the State in which the municipality is located. After the legality of a municipal bond issue has been established, the investor should assure himself that there is a sufficient amount of taxable property within the district to insure the payment of the interest and principal of the bonds. He should satisfy himself also as to the financial reputation of the municipality.

The vast amount of money needed for the extension, maintenance and improvement of the great railroad systems

of this country makes it necessary that railroads should continually borrow for these purposes. Consequently millions of dollars are annually raised by the railroads by means of these bond issues. Bonds issued by traction companies are similar to railroad bonds in their purpose. Bonds issued by gas, electric light and water companies are what are known as quasi-public securities or public utility bonds and are issued for much the same purpose as are railroad securities. Industrial bonds are classified as private securities and as a rule are issued by manufacturing concerns for the purpose of supplying capital from time to time for the enlargement of the plant or the acquirement of other plants.

Classification According to Purpose of Issue.—Among the bonds which derive their titles from the purpose of issue are adjustment bonds, construction, car trust, extension, improvement, purchase money, refunding and terminal bonds. Adjustment Bonds are issued to enable a company to adjust its finances or for the purpose of adjusting the interests of two or more corporations. Construction Bonds, as their name implies, are for the purpose of erecting new buildings or in the case of a railroad new trackage, and as a rule are secured by a first mortgage on the property. A progressive railroad is under the constant necessity of increasing its car equipment, and therefore car trust bonds or notes are issued and the money thus raised is used for enlarging this department of its business. Such bonds are usually secured by the cars themselves. The purchase of locomotives, boats, &c., naturally is made under this classification. Extension Bonds are primarily for the purpose of extending the main line of a railroad from one point to another. Improvement Bonds naturally are issued for the purpose of repairs and improvement on a property. These in the case of a railroad may include buildings, stations, trackage, rights of way, switch yards, &c. Purchase money Bonds are those which are used as part consideration on the purchase of properties. Refunding Bonds are issued for the purpose of procuring funds which shall be used in retiring previous issues. Sometimes this is done with the idea of securing a lower interest rate and sometimes in order to take care of matured obligations. Terminal Bonds are usually issued by subsidiary companies which are organized to hold title to terminal stations and properties for one or more railroad companies. Example: Terminal Railroad Association of St. Louis General Refunding 4s due 1953; and Chicago & Western Indiana Consolidated 4s 1952.

Classification According to Character of Security.—Based on their security, bonds are naturally divided into two classes, unsecured and secured. Unsecured Bonds include government, state and municipal, and these are sometimes called "plain" bonds. They are unsecured because they are accompanied by no collateral contract such as is the case with the majority of railroad, traction and industrial bonds. Secured Bonds include such as have back of them actual value which may be obtained by the bondholder in case of default in payment of the bonds. Among the various kinds of secured bonds may be mentioned land grant bonds, the security for which is a mortgage on the lands involved; real estate railroad bonds secured by a mortgage on real property not actually used in the operation of the road; sinking fund bonds secured by a fund created by a contract which is usually in the hands of a disinterested trustee; prior lien,

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first, second and third mortgage bonds, the security for which is indicated by their titles.

Classification According to the Conditions of Payment.—Bonds which are classified according to this feature include gold bonds, silver bonds, currency, legal tender, callable, convertible and joint bonds. Gold, Silver, Currency and Legal Tender are payable as indicated by their titles in the kind of money described. Practically all railroad bonds are gold bonds and payable therefore in gold. Some Mexican and South American issues are payable in silver. Ohio, Southern, and Western municipal bonds are frequently paid in currency or legal tender. Callable Bonds are those which may be paid before maturity at a rate usually in advance of the par value. Fully three-quarters of the railroad bonds are callable at some time or another. Union Pacific First and Refunding 4s due in 2008 are callable, for instance, in 1918 at 107½ and interest. Convertible Bonds are those which permit the holder to exchange or convert them at a specified rate into other forms of property.

Classification According to Ownership and Transfer.—Under this classification there are three kinds, coupon, registered and registered coupon. Coupon Bonds are those which contract for the payment of interest by means of separate coupons falling due at stated intervals. These coupons may be detached and presented for payment the same as any promissory note. Registered Bonds are those which are recorded with the registrar and the transfer of the title of which in order to be legal must be made with such registrar. In the case of registered bonds interest payments are made only to the registered holder or upon his order. Registered Coupon Bonds are those the principal of which is registered, the coupons being made payable to bearer.

BOND ISSUANCE.—Bonds have been described as a species of promissory note, being a promise to pay a certain sum at a definite time with interest at a fixed rate. The main distinctions between bonds and promissory notes have to do largely with proportions. The maker of a promissory note, the promisor, may be an individual, a partnership or at times a corporation. The maker of a bond, or the obligor, is a government, a state or municipality, or a corporation; seldom an individual. The amount of the promissory note, limited largely by the loaning capacity of the bank, is usually less than one hundred thousand dollars. The amount of a bond issue is usually a matter of millions, split up into segments that it may be assimilated by the investing public. The promissory note is for a period of months, the bond is due after a period of decades. It will be of interest to trace briefly, the process in finance through which bonds are issued, taking for an example the bonds of a large corporation making steel rails.

There would probably be three or four plants of such a company in operation, each located conveniently near its supply of fuel and raw products. In the course of time, owing to the development of a certain section of the country, conditions might arise that would put the business of one of these plants on a much more profitable basis if it could increase its share of the output, a result only to be attained through the erection of several new buildings and the installation of costly machinery. To do this, would require at least \$2,500,000. The company, therefore, decides to issue that

amount in bonds secured by a first mortgage on another part of the property. A special meeting of the stockholders is held and the whole matter is laid before them. A large majority of the stockholders, having full confidence in the officers of the corporation, will, of course, send their proxies so that the meeting, perhaps, will be but little larger than an ordinary directors' meeting. At that time it is decided how long the bonds shall run, what the rate ought to be, and what particular part of the property shall be mortgaged as security for the issue. It will be shown that although the interest on the new bonds will add to the fixed expenses, yet the increased manufacturing facilities will largely add to the profits and perhaps reduce very materially the amount of money which must be borrowed from time to time on short-term notes.

The next step is to find a banking house that will offer the best price for the entire issue, that is, advance the money to the corporation, or "underwrite" the bonds. A price is finally agreed upon and the bankers take over the issue, say at 90; that is they advance to the corporation \$2,250,000. In the meantime, a trust company has agreed to act as Trustee of the mortgage securing the bonds, receiving a fee in payment for the service, and also probably being appointed as a depository for the payment of the interest on the bonds as it falls due.

Having received the issue of the bonds and advanced the money to the corporation, the banking house will now undertake to dispose of them at a fair profit, not, however, directly to the public. A syndicate will be formed among several banking and bond houses each of which will take an allotment at a certain price. These, in turn, act as distributing agents and through their salesmen and letters to regular clients the issue is finally taken up by the public, each purchaser probably averaging \$2,000 worth of bonds. In buying the bonds, the ultimate purchasers are largely influenced by the reputation of the banking firm since the bank's position is in the nature of an intermediary between the corporation and the public. The net result is that the corporation has borrowed from the general public in small lots the sum of money needed for its purposes.

STOCK EXCHANGES.—Many of the larger cities in all countries have found it necessary to organize stock exchanges for the purpose of facilitating the buying and selling of the enormous quantity of corporate stocks and bonds which now exist. These exchanges are but the evolution of a common meeting place, such as the old coffee houses, bank corridors, or certain street corners, where it originally was the custom of those who dealt in government or other securities, to congregate. A survivor of the old stock exchange localities is the modern "curb market" where are sold, in the open air, those stocks and bonds which for some reason or another have not been listed on any regular exchange. The curb market in New York city, which has been in existence for more than thirty years, is probably the most important one of its kind in the United States. Its operations are conducted in Broad street.

The Stock Exchange gives to good stocks and bonds a ready market and a known price. Without these two features, bonds would lose their value entirely as a temporary investment for the idle funds of a bank. It is the ease with which they may be converted into cash that makes the bond

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so useful as a "secondary reserve." Stock Exchange prices go over the "ticker" and are published in the newspapers in every town of importance in the world. Thus it is possible to keep in touch with the market value of commodities far from the centres where they are dealt in, and the radius of their usefulness as collateral for bank loans is greatly widened.

Since stocks in financial institutions are not as a rule traded in very generally on any of the great stock exchanges, this class of stocks does not figure as prominently in the daily quotations as do railroads and industrials. Nevertheless, the total of bank stocks in the United States compares very favorably with the totals of the other kind. And in spite of the fact that the personal element enters into a consideration of bank stocks probably more than in any other, it must be admitted that judged by the ordinary elements of strength, these are quite as attractive as any other kind.

The ease which the Stock Exchange affords for the purchase and sale of securities which, on account of economic causes, are subject to fluctuations, has made it a centre for speculation as well as investment. Authorities find it hard to agree as to what extent these two terms may or may not be synonymous. Since it can be readily seen how important the regularly organized Stock Exchange is in the financial world, it will be well to give a very brief description as to its methods of operation.

The government of the exchange is vested in a committee, consisting of a president and other officers, together with a number of members. This governing committee has power to draft rules for the conduct of business and is the administrative body. In addition, there may be several other committees, for example the committee on stock list, which, after investigation along prescribed lines, has authority to list stocks on the exchange. The members of the exchange have "seats" which term means the privilege to conduct business on the "floor." This is the large open space where the brokers congregate. At intervals are posts which designate the particular stock which may be bought or sold there. This system is one of wheels within a wheel and makes it unnecessary for a broker to search about the room for a purchaser when he wishes to sell or buy a certain stock. Sales are made practically at auction; that is, the seller asking for a price and the buyers bidding usually a little below. As sales are effected, memorandum notes are made by both parties, which are checked up at the end of the day. In the larger stock exchanges, settlement is made through the stock exchange clearing house for the more active stocks. This mechanism operates similarly to the ordinary bank clearing house for the exchange of checks. Well-known active stocks are usually listed on several stock exchanges and this fact has led to what is known as the "arbitrage" business, that is, the purchase of stocks in one city, London, for example, where for some local reason prices may be low, the stocks being then resold at a higher price in New York.

FINANCIAL TERMS.—There are many terms common to stock exchanges, a few of which, although in everyday use, are not generally understood by the public. Such are the following:

"Bear"—One who is interested in having the prices of one or more securities decline.

"Bull"—One who expects or desires just the reverse, and prefers to see prices advance.

When a broker has bought more of a certain stock than he has contracts to deliver, he is said to be "long" of that stock. Selling "short" means selling, or contracting to deliver stock that the broker does not own. A "short interest" is a group that expects to buy stocks after a fall in prices. If instead prices have advances, such brokers incur a loss.

Buying stock on "margin" has no place in the banker's category of investments and in fact should be absolutely avoided by everyone. It is a gamble, pure and simple, a bet on the rise and fall of the market. The stock is not bought at all, but a sufficient amount of money is left with the broker to cover the margin or possible loss to the broker if the stock so secured (by the broker with his own money) falls before he can sell it again.

Another expression in common use, but not clearly understood always is the term "watered stock." Such stock is, of course, in disrepute, and means that a larger issue of stock has been sold to investors than is represented by the actual value of corporation property. This is not to be confused with over-capitalization, which means a larger capital has been subscribed than is necessary to conduct the business on an interest or dividend paying basis.

BANKS AND THE STOCK EXCHANGES.—For the purpose of buying and selling stocks and bonds, the broker requires a vast amount of money, since the purchaser may not settle until the securities are actually delivered or transferred. This money is advanced by the banks on collateral by what is known as "call" or "demand" loans. The bank is privileged to ask payment for such loans on short notice, although custom has decreed that a sufficient time must be given the borrower to make a readjustment. Demand loans sometime run for long periods of time, the interest being paid at certain intervals at varying rates. While the call money market may be said to bring the banks in closer touch with the speculative element of the stock exchange than may be best, yet it is undoubtedly an excellent medium through which the inflexibility of reserve requirements may be adjusted. For example, a large part of the surplus funds of all the banks in the United States has a tendency to gravitate to New York. It is the stock market which creates a demand for this money and it is mostly all absorbed by the brokers on call loans.

BONDS AS INVESTMENTS.—As has been stated, many banks now conduct a separate department, the function of which is to provide proper facilities and advice for their customers in the purchase of bonds. Such departments are under the supervision of experts who are specialists on bond issues and values. The average investor has neither the capacity, experience nor time for study to enable him to make a wise choice in the purchase of bonds. Against fake investment schemes and wild cat bond issues, State laws have been proposed such as the pioneer "blue sky law" of Kansas. This law requires every investment company, whether organized under the laws of the State of Kansas or any other State, to file in the officer of the State Bank Commissioner a statement showing in full detail the plan upon which it proposes to transact business. A copy of all contracts, bonds or other investments which it proposes to make with or sell to its contributors, also a statement showing the

LOANS AND INVESTMENTS

name and location of the investment company, and an itemized account of its actual financial condition and the amount of its property and the amount of its liabilities, and such other information as may be required. If conditions are found to be satisfactory, the Bank Commissioner, in whom complete judicial authority rests, will then issue a license for the vending company and its agents to do business in the state. Certain institutions and certain securities are exempt from the provisions of the statute, viz.: State and National banks, trust companies, real estate mortgage companies dealing in real estate mortgage notes, building and loan associations, and corporations not organized for profit. The securities excepted are bonds of the United States, State of Kansas, or some municipality of the State of Kansas, and notes secured by mortgage on property in the State of Kansas. The interests of the prospective investor are thus safeguarded by expert advice and legislative statute.

ELEMENTS OF SECURITY.—The elements of security in stocks and bonds have been tersely formulated by Rufus Wapers of Philadelphia in the following rules:

Rule 1.—Minimum liability of loss is secured in the class of bonds authorized for the investment of trust funds by such a State as New York.

Rule 2.—No reasonable likelihood of loss is incurred in buying bonds that are legally issued and are a valid and binding obligation on all the taxable property of a city of over 10,000 population, when it is a long settled community and has many diversified sources of revenue, with a debt of about 5% of the assessed valuation or less. Smaller cities are more apt to be negligent at times in paying obligations at the date due.

Rule 3.—There is a very strong presumption of safety in bonds of dividend paying transportation companies enjoying right of eminent domain and on those of public utility corporations (railroads, street railways, gas, water works, etc.), when satisfactory earnings have been maintained for several years; when the amount of bonds authorized is properly limited; when charter and franchise or physical or other conditions offer a large measure of protection from competition; and when the franchise will survive the maturity of the bonds for a satisfactory period.

Rule 4.—There is a fair presumption that interest on an industrial bond will be earned and the bond paid at maturity, if the permanent, available assets (land and buildings of a general character and property that cannot be diverted or seriously depreciated) offer foreclosure value sufficiently in excess both of the bond issue, and of all practicable depreciation, and if the surplus earnings provide an adequate sinking fund for the retirement of bonds.

Rule 5.—The probabilities strongly favor regular dividends on a conservative issue of preferred stock when a much larger issue of common stock has long earned dividends and surplus, and when commercial fluctuations cannot seriously unsettle the average net business profit.

Rule 6.—There is a good business chance that common stock will maintain the average earnings of the past ten years if the business is essentially of a permanent nature; and if the managers who built up the business are in the prime of life, and have accumulated large resources as surplus earnings of said business; and if they retain both the active management and their own financial interest in the

business. No participation in any enterprise less stable in character of earning power than that covered by Rule 6, can be looked upon as investing. There is left only personal, business responsibility for each duty or decision to gain profit or to avoid loss, according to ability, experience and energy. This is not investing, or obtaining from capital a safe, regular income without work or care on the owner's part.

TEST QUESTIONS.—An investor, when offered full information about a security that is new to him, and that does not at once command his confidence, wishing to know the favorable features, and to discover the point of danger, can, with a little patience, act understandingly by applying certain well-established principles, taught by the history of securities, and conveniently made use of as test questions.

1. Was the bond prepared by the best legal talent, at the instance of experience bankers, with the single purpose of affording the greatest protection possible to the bondholders?

2. Were all steps taken under honest, capable experts (business, legal, engineering and accounting), and are the records available for examination?

3. Is the capitalization conservative? Has the cash cost or probable physical and franchise value been closely approached or exceeded in the authorized bond issue?

4. Is the security issued by a company that furnishes all reasonable information to stockholders about its earnings and condition?

5. If the security is issued by a company that should prosper greatly by increasing population, is the company's property so situated that local growth in any portion of its territory will benefit it?

6. Are the bonds and stock owned in good part by men of financial strength whose self-interest would lead them at all times to consider the welfare of the company?

7. If foreclosure became necessary, would a creditor or bondholder be satisfied to become part proprietor or property owner, on account of the great value of the pledged property?

8. Is the management ably, conservatively and conscientiously working out developments for the good of the company?

9. Are the employees contented, amenable to discipline and working harmoniously with the management?

10. Has the earning power back of this security a broad dependence upon the patronage of many customers well able to pay for service or goods?

11. Is the earning power of the company fairly well protected from injurious competition and likely to continue so, with a growing population to serve or trade to rely upon?

12. Is the earning power of the company dependent upon patronage of hoped-for customers, or upon sub-companies organized to supply a demand? Does it seem likely that profits are only a future matter—to be reached in "process of time."

13. Does the earning power depend upon any expectation of unfair advantage over competitors, such as reliance on a degree of official favoritism that seems attractive to some men (though it cannot permanently aid a true investment bond or stock)?

LOANS AND INVESTMENTS

14. Are the conditions of earning power growing unfavorable from:— (a) Insufficient capital? (b) Increasing cost of operation? (c) Increasing demands of employees, or strikes? (d) Substitution by competitors of new methods or materials for old? (e) Depletion of products of mines or quarries? (f) Depletion of products of forests? (g) Depletion of products of agriculture? (h) Loss of population? (i) Increasing cost of service or distance of deliveries? (j) Increasing cost of securing raw materials or fuel? (k) Obsolete equipment or superior equipment of business competitors? (l) Loss of tariff advantage? (m) Loss of skill or prestige in management? (n) New or improved or shorter competing railway lines? (o) Larger tonnage in competing steamship lines? (p) New rival methods of doing business?

15. Is the price asked for the bond or stock much greater or much less than the usual quotation? (Ask why?)

16. Has the security been quoted higher or lower in price because of some influence afterward withdrawn? (Learn if there have been purchases by a sinking fund, expectation that the issue would be bought in and retired, accumulation in view of acquiring voting control, or supposed important advantage or disadvantage from new connections, discoveries, trade expansion or loss, etc., and learn exact facts.)

17. Is the bond offered presented as a bargain, at such a price, or with such prospects of peculiar advantage to the buyer as to disorganize the investor's critical faculty and hasten him into a purchase in the belief that he is securing great value for much less than it is worth?

18. Are the bond buyer and his associates furnishing money for experiments to get 5% if a new enterprise prospers and take all the loss if it fails?

19. Is the bond issue large enough to secure the best legal talent, if it should be needed to protect the issue, by levying a small percentage upon each bond?

20. Are the business affairs of the company conducted on such a scale that a judgment for injury or loss of life would probably be but a small percentage of the net earnings of the company?

21. Is the bond issue so large, or complicated, or difficult to understand, that sales of timid holders would be likely to cause great price fluctuations?

22. Is the vendor of the security able, in behalf of the bond or stock offered, to give satisfactory replies to all questions above cited that properly apply to it?

23. Has the vendor thorough responsibility, ample experience, and authority for all statements made by him?

24. Have responsible bankers or the house of issue directed the initial and all later steps taken in preparation of this security, bringing an experienced, judicial, business training to bear upon the fullest information, obtained by the most capable experts available? To-day the resources at the command of some American firms, with national and international interests and connections, enable them to undertake any enterprise that competent investigation can commend for its importance and timeliness in serving the public, and hence earning profits for its security holders. No bankers of experience and standing will recommend any security to their clients until after the enterprise has satisfied reliable and discriminating men, that the offering merits

confidence. When bankers of the highest standing recommend a security, the purchasers are entitled to believe that the bankers have decided favorably upon the merit of that particular issue, after first gathering information from all sources, and exercising upon it judgment trained and developed by long experience.

Exercises

In connection with "Loans and Investments," the following exercises are prescribed:

1. Why should the amount which any bank may loan to any single individual or interest be limited to a certain percentage of that bank's capital and surplus?

2. Distinguish between loans and discounts.

3. What information should a bank credit department have, and how may such information be best obtained and recorded?

4. In extending credit, what circumstances and conditions should be considered beyond ordinary statements of assets and liabilities?

5. In your judgment what portion of a bank's available funds should be invested in (1) marketable securities, (2) commercial paper purchased in the open market, and (3) loans to customers?

6. Distinguish between quick and slow assets and give examples of both kinds.

7. In considering the purchase of commercial paper and the making of loans to customers, specify lines of business of desirable and undesirable character.

8. Name and describe loan and discount records suitable for an institution of the size and character with which you are familiar. Do not follow the forms contained in this lesson pamphlet but devise something in accordance with your own ideas.

9. What is the fundamental difference between stocks and bonds?

10. Distinguish between common and preferred stocks.

11. Name the characteristics that usually determine the titles of bonds.

12. Define in your own language the financial terms "bull," "bear," "short" and "long."

13. Explain the transaction commonly referred to as buying "on a margin."

14. What are the benefits and evils of stock exchanges as generally conducted?

15. Define "watered stock" and specify two issues that in your judgment may be so classified.

16. Discuss stocks and bonds as investments and name and describe two or three that are in your opinion worth buying at present prices.

17. With due regard in each case for security, interest and marketability, specify three issues of municipal and corporation bonds that you would recommend for investment for each of the following named institutions:

(a) A commercial bank,

(b) A savings bank,

(c) A trust company.

18. Should commercial banks be permitted to make loans on real estate security? State as briefly as possible the arguments for and against such policy.

American Institute of Banking

Clearing Houses and Trust and Savings Institutions

IT IS one of the laws of economics that all forms of industry in our modern commercial life are dependent in their last analysis upon the most primitive occupation of all, that of agriculture. It has been said that the farmer gambles only upon the weather, whereas all other men stake their success or failure upon one another. The position of the banker in the world of productive activity is unique in that he is vitally interested in every stage of production, distribution and consumption from the simple business of seed time and harvest down to the most complex of modern commercial organizations. No bank is complete in itself, nor can it isolate itself from other financial institutions. Capital, Credit, Currency, Cash and Checks are the commercial high "C's" upon which all bankers embark together, and their ultimate success depends upon the measure of assistance they extend to one another in fair weather and storm.

The Clearing House is the first expression of the need for co-operation, and the part of this lesson pamphlet pertaining to Clearing Houses is given official character through the fact that the subject matter has been prepared by the Clearing House Section of the American Bankers' Association. The Clearing House is, indeed, such a necessary adjunct to banking machinery that there is no definite record as to the inception of the idea, but rather it is a custom which has grown side by side with other banking practices. Certain it is that the clearing principle was in operation in England as early as 1775, although it was not until about 1850 that the plan gained a foot-hold in this country. As early as 1831, the establishment of Clearing Houses in America was urged by the eminent financier, Albert Gallatin. His plan contemplated the extension of Clearing Houses throughout the United States and he lived to see a partial application of the system. From that day there has been a gradual development of the idea until to-day we are beginning to recognize that the clearing of checks is but a minor function of the Clearing House although it is the fundamental principle involved. Broadly speaking the Clearing House Association represents Power. It is an association, a combination of banks, not only for their mutual convenience in making settlements but also the instrument through which its members may wield an influence for good and for progress.

CLEARING HOUSES.—As a mechanism for the exchange of checks the Clearing House system is complete. It is true that no two Clearing Houses follow identical rules in the conduct of their daily business, a slight deviation here and there resulting from varying local conditions. In general, however, all methods of operation have become standardized, so to speak, and it will be the purpose of this lesson to make clear the common *modus operandi* of all Clearing Houses.

This has already been done in so clear and concise a manner by James G. Cannon that his book prepared for the National Monetary Commission has become an authority on the subject. In attempting to describe Clearing Houses as they exist to-day we cannot do better, therefore, than to

follow Mr. Cannon's review of Clearing House methods, and upon the facts presented by him this lesson pamphlet is largely based.

Clearing Houses in the United States may be divided into two classes, the sole function of the first of which consists in clearing notes, drafts, checks, bills of exchange, and whatever else may be agreed upon, and the second of which, in addition to exercising the functions of the class just mentioned, prescribes rules and regulations for the control of its members in various matters, such as the fixing of uniform rates of exchange, interest charges, collections, etc. Clearing Houses may also be divided into two classes with reference to the funds used in the settlement of balances: First, those Clearing Houses which make their settlements entirely on a cash basis, or, as stated in a decision of the Supreme Court, "by such form of acknowledgment or certificate as the associated banks may agree to use in their dealings with each other as the equivalent or the representative of cash;" and second, those clearing houses which make their settlements by checks or drafts on large financial centers.

The term "Clearing House" has a two-fold meaning. It is used to represent the association of banks in any one place for the exchange of items as described above, and in this sense defines the use or function of a Clearing House. This is the commonly accepted meaning of the term, for in its second sense it means the office or building where the exchanges take place. In many instances, no building is set apart for this purpose, the actual work being done in the office of the most convenient bank. This distinction of meaning is important from an outside point of view, as will be shown later, the term "payable through the Clearing House" often causing great confusion to the banking public.

To clear a check means to pass it from the bank that holds it as a deposit or for collection to the bank on which it is drawn, and to receive payment therefor; but, with the complexities of modern business, a single check is seldom cleared. Instead, a multitude of checks and other items are included in each clearing. The term "to clear" therefore takes on a broader meaning, and the only adequate conception of it is afforded by a view of the actual operations of a clearing house. The word "clearing" designates the settlement of balances between banks, arising from the interchange of checks, drafts, etc., carried on at the Clearing House. The term "clearings" signifies the total of differences balanced at a Clearing House. The term "exchange" has various shades of meaning, ranging from a charge for the transfer of money from one point to another, to the place where business interests of a special class are brought together and where contracts concerning them are made. The term "exchanges," frequently employed by those who have transactions with the Clearing House, indicates the items that are to be exchanged, as, for example, in the phrase: "The amount of exchanges."

The term "balance" has two distinct meanings, and the word is used among bankers and business men in a way to indicate two things entirely different from each other. In

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS.

its simplest form a balance may be declared to be an equality between the credit and debit totals of an account. But it is also used to refer to the difference between such totals, or, in other words, the excess on one side or the other. The balances in a Clearing House statement are the respective differences between the debit and credit sides of the several accounts included in the statement. A bank's balance in a Clearing House settlement would mean either the amount that it has to pay or the amount that it is to receive, according to the excess of debits or credits shown by the statement. A bank's Clearing House settlement therefore means an adjustment or payment of the difference between the debit and credit side of the account and further designates either a receipt or a disbursement, as the case may be. Each member bank has a settlement with its Clearing House daily.

CLEARING HOUSE EXCHANGES.—The location of the Clearing House is always as near the center of the banking district as possible. It is especially important that this should be so in a large city, where the banks are numerous and often scattered over a considerable area. The clearing office, or room, is equipped with the necessary furniture, stationery, and desks for the various members. The desks are sometimes arranged in straight rows, and sometimes in elliptical curves, and in a few cases they are placed like the desks in a schoolroom. It is not uncommon in small places for the clerks to meet and make their exchanges around a table, and occasionally the same rule prevails in large centers. Many of the smaller Clearing Houses do not rent permanent quarters but instead the banks belonging to the association act as clearing agents in rotation, the cashier, or some other official of the bank where the clearing for the time being are made, acting as manager.

Each Clearing House determines for itself the time when its daily exchanges shall be made, and practically the only criterion in selecting an hour is the convenience of the members. It is customary in some of the larger cities for banks who are near one another in a "financial district" to exchange whatever checks they may have at an early hour across their counters, giving and taking receipts therefor. These receipts are then passed through the regular clearing at a later hour. This practice enables the bookkeepers and tellers to get well under way before the checks are received from the outlying members of the Clearing House at the regular exchange. When the exchanges take place at 10 o'clock, or earlier, it is customary for the members to clear the items received in the morning mails, or, in some cases, to include only the larger items so received, and to send those received in the afternoon and the smaller amounts, if any, left over from the morning through the exchanges on the following day. But when the exchanges take place as late as 3 o'clock, most of the items received are cleared the same day.

The rules regulating the kinds of matter to be cleared are by no means uniform. A number of organizations specify in their articles of association what shall be considered proper clearing matter. Of such rules, the following, from the by-laws of a prominent western Clearing House, is one of the most common: "Proper matter for clearing shall consist of checks, drafts, manager's certificates, certificates

of deposit, demand or matured, and any other matter specially agreed upon, until notice is given to the contrary, and any bank clearing paper not proper shall be fined." Each bank, before sending its exchanges through the Clearing House, is required to indorse them with its number and the words "Received payment through the _____ Clearing House," or such other indorsement as the Clearing House committee or the association may determine upon. Evidently it would require a prodigious amount of labor to write the indorsements upon the items, and, indeed, it would be a physical impossibility in many of the banks of the large cities to do so. Hence an official stamp is used, and the same is usually accepted as a guaranty of all previous indorsements, whether written or stamped. It is not construed as supplying or guaranteeing to supply a missing indorsement. Just here it might be well to call attention to the fact that the Clearing House indorsement stamp more nearly than any other approaches the ideal in indorsement on checks that are used as cash items. The legal status of indorsements is an uncertain quantity with respect to restrictions, guarantees, forgeries, etc. In common banking usage, however, the indorsement is a very simple matter. It is a record primarily, and it is incumbent upon every former holder of the check to accept it in return should it not be paid in due course. Therefore every indorser is responsible for his own indorsement and that immediately preceding. Any inscription or mark sufficient to identify the channel through which the item may be returned to the original payee would seem to be all that should be required of bank indorsements.

CONDUCTING THE EXCHANGES.—Checks are taken to the Clearing House bound together with rubber bands or inclosed in large envelopes, the items that go to each of the members being kept separate. If the bulk is not too great, they are often carried in the hand, but it is customary in the large cities to transport them in leather bags or cases. The usual rule is that immediately upon his arrival at the Clearing House the settling clerk delivers to the manager, or the assistant manager, a ticket containing the amount of the items brought from his bank. A fine is usually imposed upon a member for being late at the clearings, and if the representative fails to appear before a specified time, the member is excluded from the exchanges of the day, and must make its clearings at the counters of the other banks.

When the clerks begin the exchanges at the same time they all start upon the signal from the manager, with their items on their arms or in bags or cases strapped over the back, and proceed in the same direction, passing along the desks until they have deposited all their paper. In the large cities, where the clerks are numerous, order and method are necessary in delivery to prevent confusion and save time. But in small cities, where the clerks usually deliver their items as soon as they arrive, more liberty is allowed in personal conduct; also by this method an opportunity is afforded to the less proficient clerks to arrive early and list their items as fast as they are delivered to them from the other banks.

The speed with which the business of a Clearing House is transacted seems almost incredible. The actual time re-

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

No. 61

THE FOURTH NATIONAL BANK
OF THE CITY OF NEW YORK

Settling Clerk's Statement, _____ 191__

BANKS	No.	DEBIT	DEBIT	No.	CREDIT
Bank of N. Y. National Banking Ass'n,	1			1	
Manhattan Company,	2			2	
Mechanics' National Bank,	3			3	
Mechanics & Metals National Bank,	4			4	
Bank of America,	6			6	
National City Bank,	8			8	
Chemical National Bank,	12			12	
Merchants' Exchange National Bank,	13			13	
National Butchers' & Drovers' Bank,	15			15	
Greenwich Bank,	17			17	
American Exchange National Bank,	21			21	
National Bank of Commerce,	23			23	
Mercantile National Bank,	27			27	
Pacific Bank,	28			28	
Chatham & Phenix National Bank,	30			30	
People's Bank,	31			31	
Hanover National Bank,	33			33	
Citizens' Central National Bank,	36			36	
National Nassau Bank,	40			40	
Market & Fulton National Bank,	42			42	
Metropolitan Bank,	44			44	
Corn Exchange Bank,	45			45	
Importers' & Traders' National Bank,	53			53	
National Park Bank,	54			54	
East River National Bank,	59			59	
Second National Bank,	63			63	
First National Bank,	65			65	
Irving National Bank,	67			67	
Bowery Bank,	70			70	
New York County National Bank,	71			71	
German-American Bank,	72			72	
Chase National Bank,	74			74	
Ass't Treasurer U. S. at N. Y.,	75			75	
Fifth Avenue Bank,	76			76	
German Exchange Bank,	77			77	
Germania Bank,	78			78	
Lincoln National Bank,	80			80	
Garfield National Bank,	81			81	
Fifth National Bank,	82			82	
Bank of the Metropolis,	83			83	
West Side Bank,	84			84	
Seaboard National Bank,	85			85	
Liberty National Bank,	91			91	
N. Y. Produce Exchange Bank,	92			92	
State Bank,	96			96	
Security Bank,	97			97	
Coal & Iron National Bank,	99			99	
Union Exchange National Bank,	100			100	
Brooklyn Trust Company,	102			102	
Bankers Trust Company,	103			103	
U. S. Mortgage & Trust Co.,	104			104	
Astor Trust Company,	105			105	
Title Guarantee & Trust Co.,	106			106	
Guaranty Trust Company,	107			107	
Fidelity Trust Company,	108			108	
Lawyers Title Ins. & Trust Co.,	110			110	
Columbia-Knickerbocker Trust Company,	111			111	
Peoples Trust Company,	113			113	
New York Trust Company,	114			114	
Franklin Trust Company,	115			115	
Lincoln Trust Company,	116			116	
Metropolitan Trust Company,	117			117	
Nassau National Bank, Brooklyn,	118			118	
Broadway Trust Co.,	119			119	
FOOTINGS,					
BALANCES,					

Form of Settling Clerk's Report to his Bank of Daily Balances

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

quired to make the exchanges varies from one and one-half minutes to ten minutes. When the exchanges are made simultaneously, the time varies, as a rule, in proportion to the number of members. The shortness of time required to make exchanges affords, perhaps, the best example in existence of the success of modern business methods as compared with the old way of doing things. When the clearings have been made, the next step is for each settling clerk to determine the amount of the balance of his own bank, which is found by taking the difference between the amount brought to the clearing house and the amount taken away. There is practically no exception to this rule.

Each clerk then hands to the manager a memorandum of his balance debit or credit. Of course, the sum of the debit balances must equal the sum of the credits and this is the proof of the exchange. A certain amount of time is allowed in which to make this proof, and for each error remaining undiscovered at the expiration of the allotted time, a fine is usually imposed. The settlement having been effected, the manager then calls off the debit and credit balances of each bank in even thousands and the clerks make proper entry of the same on sheets which they take back to their banks. This is important, especially in cities outside the reserve centres since it enables the bank officers to adjust their reserves or city balances by an exchange of currency for New York or other funds, or vice versa. It also furnishes each bank with a means of determining if its fellow-members are being drawn upon heavily.

SETTLEMENT OF BALANCES.—In making the daily exchange, each bank expects a difference one way or the other, ranging from a few cents to a very large amount. In a great city a bank may be a creditor one day to the extent of several hundreds of thousands of dollars and the next day a debtor to a similar amount. It is of the utmost importance, therefore, that each bank should be prepared to meet any balance appearing against it at the Clearing House.

The ratio of balances to clearings depends partly upon the number of banks, but much more upon the amount and character of their business and upon their relations one to another. This ratio varies from about 18% in some cities to less than 5% in others. The more nearly the banks stand on an equality with one another, the more nearly will their transactions approach a complete offset, which, of course, would leave no balance to settle. The methods of settlement of Clearing-House balances may be divided in a general way into two classes: First, settlements with money; and, second, settlements without money.

A Clearing House acts merely as the agent of the banks in the payment of the balances. It pays to the creditor banks the money it received from the debtor banks. As soon as the result of the exchanges is known the debtor banks may begin the payment of their balances, all of which may be paid in before the expiration of a specified time, usually two or three hours after the exchanges have been completed. Failure on the part of any member to meet its requirements promptly would subject it to a fine.

Any kind of United States money is acceptable in most of the small Clearing Houses; but in a majority of the large ones certain kinds of money are not acceptable. The ordinary methods of settling balances without the use of

money are as follows: (1) By manager's check on debtor banks given to creditor banks; (2) By borrowing and loaning balances; (3) By the use of currency depository certificates; (4) By drafts on another city. There is also another method used only in times of financial stress, namely, the Clearing-House loan certificate which will be explained later. Each of these methods is well adapted to conditions in particular localities, although each one except the third has at least one good reason why it should not be adopted. For instance, the use of managers' checks which are included in the clearings of the following day, delays settlements for another day, and has the effect of "inflating" the total of exchanges; the borrowing and loaning of balances often brings sudden and dangerous pressure to bear upon a heavy borrower; the use of reserve balances in other cities tempts a heavy debtor to borrow beyond safe limits. A cash settlement is in all respects the most consistent with sound banking practice and this is best accomplished by the use of the certificate plan.

Many of the large Clearing Houses provide for a depository to receive in special trust such United States gold coin as any of the banks belonging to the association may voluntarily deposit with it for safe-keeping, upon which certificates may be issued, to be used in the settlement of Clearing-House balances. Such certificates are usually issued in denominations of \$5,000 and \$10,000, and are negotiable only among the associated banks. Such certificates are, of course, available as reserve, and Clearing House settlements effected by their use are strictly on a cash basis, yet the damage of loss attendant upon the handling of an equal amount of cash is altogether avoided. It is interesting to note that about 40% of the Clearing Houses of the United States use drafts on other cities in paying their balances. About 30% settle by manager's check, and about 25% settle by cash alone, the remaining 5% settling by a combination of two or more of the foregoing methods.

It often happens that banks are called upon to make a direct presentation of checks which it is not desirable to pass through the exchanges, for example: when the credit of maker of the check is in doubt or if the depositor desires immediate advice of payment. In such cases the usual procedure is to pay the amount in cash or certify the check. Certification often gives rise to legal complications growing out of the liability of parties, and if the check should be paid in cash at the counter, there is the risk of loss. The mechanism of the Clearing House can be put in operation to avoid both these contingencies by the employment of the "Clearing-House Due Bill," in use in Philadelphia. A copy of this instrument may be found among the forms which are printed in another part of this booklet. "Due-bills" are used by the member banks in transactions across the counters and they are also given to depositors in lieu of certification for use in payment of notes or other obligations where cash is demanded. They are also used by debtor banks to pay to the Clearing House that part of their balance less than \$5,000. These "due-bills" are then deposited by the manager to his credit in a member bank and checked against by him in favor of the creditor banks. It will, therefore, be seen that this system precludes the necessity of the transfer of any settlement cash whatever about the streets.

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

No. 61

THE FOURTH NATIONAL BANK

OF THE CITY OF NEW YORK

Settling Clerk's Receipts, _____ 191_____

BANKS	No.	DR.	DR.	No.	SIGNATURES
Bank of N. Y. National Banking Ass'n,	1			1	
Manhattan Company,	2			2	
Merchants' National Bank,	3			3	
Mechanics & Metals National Bank,	4			4	
Bank of America,	6			6	
National City Bank,	8			8	
Chemical National Bank,	12			12	
Merchants' Exchange National Bank,	13			13	
National Butchers' & Drovers' Bank,	15			15	
Greenwich Bank,	17			17	
American Exchange National Bank,	21			21	
National Bank of Commerce,	23			23	
Mercantile National Bank,	27			27	
Pacific Bank,	28			28	
Chatham & Phenix National Bank,	30			30	
People's Bank,	31			31	
Hanover National Bank,	33			33	
Citizens' Central National Bank,	36			36	
National Nassau Bank,	40			40	
Market & Fulton National Bank,	42			42	
Metropolitan Bank,	44			44	
Corn Exchange Bank,	45			45	
Importers' & Traders' National Bank,	53			53	
National Park Bank,	54			54	
East River National Bank,	59			59	
Second National Bank,	63			63	
First National Bank,	65			65	
Irving National Bank,	67			67	
Bowery Bank,	70			70	
New York County National Bank,	71			71	
German-American Bank,	72			72	
Chase National Bank,	74			74	
Ass't Treasurer U. S. at N. Y.,	75			75	
Fifth Avenue Bank,	76			76	
German Exchange Bank,	77			77	
Germania Bank,	78			78	
Lincoln National Bank,	80			80	
Garfield National Bank,	81			81	
Fifth National Bank,	82			82	
Bank of the Metropolis,	83			83	
West Side Bank,	84			84	
Seaboard National Bank,	85			85	
Liberty National Bank,	91			91	
N. Y. Produce Exchange Bank,	92			92	
State Bank,	96			96	
Security Bank,	97			97	
Coal & Iron National Bank,	99			99	
Union Exchange National Bank,	100			100	
Brooklyn Trust Company,	102			102	
Bankers Trust Company,	103			103	
U. S. Mortgage & Trust Co.,	104			104	
Astor Trust Company,	105			105	
Title Guarantee & Trust Co.,	106			106	
Guaranty Trust Company,	107			107	
Fidelity Trust Company,	108			108	
Lawyers Title Ins. & Trust Co.,	110			110	
Columbia-Knickerbocker Trust Company,	111			111	
Peoples Trust Company,	113			113	
New York Trust Company,	114			114	
Franklin Trust Company,	115			115	
Lincoln Trust Company,	116			116	
Metropolitan Trust Company,	117			117	
Nassau National Bank, Brooklyn,	118			118	
Broadway Trust Co.,	119			119	

Form of Settling Clerk's Receipts

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

CLEARING COUNTRY CHECKS.—We have seen how useful and effective is the machinery of the Clearing House for the presentation and settlement of checks among banks of one city. The clearing device has also been extended for facilitating the collection of outside or "country checks." This development has come about through much the same economic causes as have produced what is more strictly the city plan, although banks have been slow in realizing the benefits that are to be derived from such a system. It is estimated that 95% of all business done in the United States is on a check basis, in fact, the use of checks and drafts has more than kept pace with the natural growth of commerce. The check, properly handled and quickly liquidated is an ideal substitute for currency and all banks should foster and extend this facility as far as possible. It is no longer good banking usage, or indeed practical, to defer credit for checks and drafts until actual final payment has been received. Therefore, it has devolved upon banks to devise a method whereby such items should be forwarded and collected expeditiously. This is best accomplished by what is generally known as the Boston plan, which may be briefly described.

Each Boston Clearing-House bank assort its New England checks into States and towns and sends them daily to the Clearing House, before a certain hour, together with machine lists of the totals, for which a receipt is taken. This receipt is then cleared after a certain time has elapsed for the return of the remittances. The Clearing-House clerks assort all the checks alphabetically as to towns and States so that at the end of the day a single letter containing checks from all the Boston banks goes to each bank in New England. Remittance is made at once to the manager of the Clearing-House who then charges the drafts to the banks on which they are drawn. If other funds than Boston drafts are received, due provision is made. Ninety-five per cent. (95%) of all transactions are thus settled on the second day and if any delay should occur in the mails for a longer period, temporary adjustment is made. The clerical work and book-keeping entailed is very simple and altogether the plan has been so eminently successful that many other cities have adopted similar systems. The cost to the Boston banks has been about seven cents per thousand dollars collected.

There is also another plan which is used successfully by banks in communities too small to warrant the establishment of a separate country department. This might be termed the "County Clearing-House" system, although it is in reality an adaptation of the London, England, plan of country check collection in use since 1858. It is provided that each bank in the county where this method is in operation shall carry an account with a bank in the county seat where the Clearing House is located. Each Clearing House bank then charges to the other members all checks which they receive on the correspondents of that bank. This plan has been found to work out admirably and is probably the cheapest way that can be devised to clear a certain limited section. Under the country Clearing House method, the benefits of economy are not limited to the city banks. The country banker saves in even greater proportion. Instead of receiving a dozen letters a day from the banks of the nearest largest city he may get the bulk of his mail items in

C. A. RUGGLES, Manager.

BOSTON CLEARING-HOUSE

Boston, _____

To the Cashier of the

_____ National Bank of _____

Dear Sir:

Enclosed find checks on your bank as listed below, for the amount of which please remit by return mail a draft on your Boston correspondent, payable to the order of the Manager of the Boston Clearing-house.

Please do not delay the protest or return of any check not good, but return it, under protest if necessary (*deducting check and fee from remittance*). Any special instructions on slip or check should be observed. *Do not protest checks of ten dollars or under unless requested to do so.*

Yours truly,

C. A. RUGGLES, Manager.

_____ National Bank _____

Date, _____ Amount, _____

Form of Letter of Transmission to Correspondents

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

one letter from the Clearing House. This reduces clerical labor and bookkeeping to a minimum. There is the saving of stationery as well and at the end of the day there is but a single remittance draft to be made and a two-cent stamp does the work which under different methods requires ten times the postage. The risk of losses in the mail is also reduced ten-fold. The small bank can well afford to reciprocate by reducing its exchange charge and in this connection it may be noted that wherever the country Clearing House system has been introduced there has been an immediate lowering of exchange rates in that section of the country where the Clearing House operates.

OTHER FUNCTIONS OF CLEARING HOUSES.—As has been stated, the primary purpose of the Clearing House is the exchange of checks and drafts among the banks associated together for that purpose, and the settlement of balances resulting from such exchanges, but this is not the only function exercised. The clearing facility may be said to be operated for the convenience of member banks and to work economy in time and labor. Other measures which were once looked upon as special functions but have now become regular adjuncts of bank association are adopted for the mutual assistance and protection of members. Experience has shown that banks are as often placed in jeopardy by the actions or condition of their neighbors as they are by a general situation which affects them all, such as panics or financial depressions. It, therefore, follows that rules must be adopted for proper organization which are known as Articles of Association. In addition, it is customary for each member to issue a weekly statement of condition, which may or may not be published, but which is always submitted to the inspection of each member.

In times of panic it is not infrequently the case that a bank of good standing becomes temporarily embarrassed. Unfortunate reports may cause a run upon it, and being unable to call in a sufficient amount of its outstanding loans to meet the demands of its frightened depositors, it must either secure a loan or fail. In such an emergency the other members of the Clearing House are usually willing to render assistance until the strain is relaxed. To secure such aid, however, a bank must be sound in its management and of good repute in every respect. Otherwise the members of the Clearing House are likely to decline assistance, being quite willing to get rid of a weak and ill-managed member. Inasmuch as banks are committed to render aid to their fellow-members it is important that they should be well advised as to the management and condition of one another at all times. In small towns or cities this information is readily obtained through social or other channels, in addition to what may be learned by observation and the weekly statement. In large cities, however, where this method is impractical, the Clearing Houses have appointed special examiners who make periodic and exhaustive investigations.

CLEARING HOUSE EXAMINATIONS.—The appointment, by Clearing Houses, of special examiners, is in no wise intended as a reflection upon the examinations pursued under national and State authority. The national and State officers are limited in their powers of criticism to actual infringements on the law, and before they can take steps to correct such infringements capital has often become im-

paired and failure is threatened. Most bank failures are due to the gradual acquirement of undesirable assets over a period of years, and if some authority exists with power to make recommendations of a remedial character, with the further power to enforce such recommendations, if necessary, there is little doubt that many bank failures would be averted. The examinations include, besides a verification of the assets and liability of each bank, so far as possible, an investigation into the workings of every department and are made as thorough as is practicable. After each examination the examiner prepares a detailed report in duplicate, describing the bank's loans, bonds, investments, and other assets, mentioning specially all loans, either direct or indirect, to officers, directors, or employees, or to corporations in which they may be interested. The report also contains a description of conditions found in every department. One of these reports is filed in the vaults of the Clearing House, in the custody of the examiner, and the other is handed to the examined bank's president for the use of its directors. The individual directors are then notified that the examination has been made and that a copy of the examiner's report has been handed to the president for their use. In this way every director is given an opportunity to see the report, and the examiner, in every instance, insists upon receiving acknowledgement of the receipt of these notices.

The detailed report retained by the examiner is not submitted to the Clearing House committee, under whose direct supervision he operates, unless the discovery of unusual conditions makes it necessary. A special report in brief form is prepared in every case and read to the Clearing House committee at meetings called for that purpose. The report is made in letter form, and describes in general terms the character of the examined bank's assets, points out all loans, direct or indirect, to officers, directors, or employees, or to corporations in which they may have an interest. It further describes all excessive and important loans, calls attention to any unwarranted conditions, gross irregularities, or dangerous tendencies, should any such exist, and expresses, in a general way, the examiner's opinion of each bank as he finds it. The examiners enter into an agreement not to enter the employ of any member or non-member of the association, or any other bank, banking institution, firm, or individual engaged in the business of banking, within a radius of miles, for a period of years after the expiration of services with the association. The Clearing House examiner is a very valuable man to the small bank or new institution. The officers of these banks very often do not have the facilities or experience necessary to pass upon paper which is submitted to them for sale or discount. They are apt to become loaded up with credits which have been rejected by their larger or better informed neighbors and must pay dearly for their lack of knowledge. The bank examiner is in a position to make valuable suggestions which often save failures and liquidations. Towns which are too small to be able to afford the services of a skilled examiner can combine with two or more other cities and thus secure a proper official.

CLEARING HOUSE STATEMENTS.—Reference has been made to the statement which is made by each member of the Clearing House at stated intervals. If it is made

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

BANK NO. _____ Chicago, _____ 190__

W. D. C. STREET, Manager.

CHICAGO CLEARING HOUSE

Pay _____ or order, \$ _____

_____ Dollars

and deduct from balance due us this day.

Cashier.

Form of Order Used in Transferring Balances That Have Been Loaned

NUMBER	<i>This Due Bill is only good when signed by one and countersigned by another authorized person and is payable only in the Exchanges through the Clear- ing House the day after issue.</i>	<p style="text-align: right;">Philadelphia, _____ 19__</p> <p style="text-align: center;">Due By The Philadelphia National Bank</p> <p>To ORDER OF _____</p> <p style="text-align: right;">_____ thousand</p> <p style="text-align: right;">_____ hundred and _____ ¹⁰⁰ Dollars</p> <p>\$ _____</p> <p style="text-align: right;">Teller.</p>
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Form of Clearing-house Due Bill

WEEKLY STATEMENT

Average Condition for the Week preceding Monday, _____ 191__

BANK	CAPITAL STOCK	LOANS AND DISCOUNTS	LAWFUL MONEY RESERVE	DUE FROM OTHER BANKS	DUE TO OTHER BANKS	DEPOSITS	CIRCULATION	PERCENTAGE OF RESERVE

Due by _____ Due to _____

\$ _____ New York, \$ _____

Cashier.

Form of Weekly Statement Required of Philadelphia Banks

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

weekly it is an average statement and is usually accompanied by the actual statement of the bank's condition as of that day. There are cases, however, where the actual statement of certain items is made daily to the manager of the Clearing House, who then publishes a weekly statement of the average condition of each bank. The weekly Clearing House statement is of utmost importance to the business world for it furnishes a fair indication of conditions governing trade. In addition to the regular statement, statistics are furnished showing the operations of the Clearing House itself for a limited period, usually a week. The aggregate volume of "clearings" reflect the general trend of commerce with a dependable degree of accuracy since a rise or fall in the total of checks used indicates a corresponding fluctuation in business activities. The value of these statements as a means of comparison between periods of stress and ease in the financial condition of the country is inestimable. It follows, therefore, that such statements should be accurate, that is to say, the total of "clearings" should not include manager's checks or any other items which represent deferred settlements. A few Clearing Houses are given to inflating the figures they submit for publication by adding the debits to the credits as the total business transacted. As a matter of fact, the amount taken from the Clearing House is exactly equal to the amount brought and either is the correct sum of the exchanges. The weekly report of clearings, while it is a valuable statistical record, does not, however, invariably measure the increase or decrease of business. The largest business houses of a city usually carry accounts with the biggest bank and transactions between them do not therefore appear in clearing records. In a recent report of the Comptroller of the Currency it was shown that the clearings of the country showed an increase over a specified period in every city except Cincinnati. The reason for this was not explained but it was due to a very natural cause. Two of the largest banks in Cincinnati had consolidated and consequently the daily exchange of checks was very materially reduced. Another factor tending to reduce the clearings especially among the smaller cities is the introduction of country Clearing Houses. This swells the totals of the larger city, but since the checks are sent direct to the banks on whom drawn, the clearings in the country towns are necessarily reduced. A better plan to secure figures that will indicate business fluctuations more accurately than clearings, is the system adopted by some clearing houses whereby total check transactions are reported as well as clearings.

The employment of qualified examiners and the keeping of proper records, are, briefly, the means employed by Clearing House associations in conformation with the principles of sound business to assure one another of good faith and standing and to publish regularly accurate statements for the guidance of the general business public. Measures must also be adopted for the mutual protection of members against pressure from the outside attendant upon financial depressions or panics. The medium through which Clearing House banks pool their interests and extend credit to one another in periods of stress, is the Clearing House loan certificate.

CLEARING HOUSE LOAN CERTIFICATES.—One

of the most important of the functions of the Clearing House is the issue of Clearing-House loan certificates in times of panic. By this means, in some cases, the specie reserves of the Clearing-House members have been combined in a way to become a common fund, so that any bank that experienced an unusual demand for specie was supported by the combined reserves of all the banks. The bank thus assisted secures the other members against loss by depositing with a committee, appointed for the purpose of receiving them, its securities in the shape of stocks, bonds, and bills receivable. The great value of Clearing House loan certificates lies in the fact that they take the place of money in settlements at the Clearing House, and hence save the use of so much actual cash, leaving the amount to be used by the banks in making loans and discounts, and in meeting other obligations. The volume of currency, to all intents and purposes, is expanded by this means to the full amount of the certificates issued. These loan certificates bear interest rates varying from 5 to 10 per cent. per annum, payable by the banks issuing such certificates to the banks which receive them by allotment in settlement of daily balances. Hence the interest charged against certain banks must exactly equal and offset that credited to certain other banks. The aim is to fix the rates sufficiently high to insure the retirement of the certificates as soon as the emergency which called them forth has passed by. Notice is given by the debtor banks to the committee, calling for such certificates as they wish to retire, and the committee gives notice to the banks holding the same, stating that the interest will cease after a specified date. Upon the retirement of the certificates the collateral deposited as security is surrendered by the committee in the same proportion to the certificates turned in as required for deposit at the time of issue. Some banks regard their use of Clearing House certificates as a reflection upon their standing, and hence refuse to apply for them unless driven to it by sheer necessity. This view is erroneous, however, and is no doubt the result of an unfortunate misunderstanding of the value of credit instruments as a means of securing elasticity in currency issue. At the time of this writing the Clearing House loan certificate furnishes the best example of the scientific use of credit secured currency in this country.

Another plan to protect the currency held by banks at critical times is that of Clearing House checks. These checks are issued in much the same manner as the Loan Certificates except they are in small denominations and are meant for general circulation. Many banks furnish their depositors with rubber stamps for the purpose of placing upon all checks the words "Payable only through the Clearing House." This plan prevents a great drain upon the currency available to meet demands made at the counter. Many railroads and other corporations who use the pay-check system also make use of this method to prevent great numbers of their employees crowding the corridors of the bank on pay-day with the consequent discomfort to tellers and officials with the added annoyance of identification requirements. The term "payable only through the Clearing House," owing to the ignorance of the general public upon banking mechanism, often results in amusing incidents. For

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

BALTIMORE CLEARING-HOUSE	No. _____	BALTIMORE CLEARING HOUSE
		Baltimore, _____ 18
	THIS IS TO CERTIFY:	
	<p>That the _____ has deposited with the Committee appointed by the Associated Banks on June 24th, 1893, Approved Securities, which are held as a Special Deposit to secure the redemption of this Certificate in compliance with resolutions adopted by said Banks on the day above named.</p> <p>This Certificate will be received for the sum of ONE THOUSAND DOLLARS without endorsement, in settlement of balances resulting from the exchanges between the Banks, will bear interest at the rate of six per cent. per annum until redeemed, and will be negotiable only between the Associated Banks.</p>	
	\$1000	_____ MANAGER.

Form of Clearing-House Loan Certificate Used in Baltimore

No. _____	ATLANTA CLEARING HOUSE	\$500
Series A.	Association Certificate	ATLANTA, GA.
<p>THIS CERTIFIES that the Banks composing the ATLANTA CLEARING HOUSE ASSOCIATION have deposited with the undersigned Trustees of said Clearing House Association, Securities to the value of SEVEN HUNDRED AND FIFTY DOLLARS, to secure to the bearer hereof the payment of the sum of</p> <p style="text-align: center;">FIVE HUNDRED DOLLARS</p> <p>in lawful money of the United States, payable on or before the First day of January, 1894. This Certificate is issued in accordance with the proceedings of a meeting of said Association, held on the Fifteenth day of August, 1893, and will be received on Deposit or in payment of debts due any bank in said Clearing House.</p>		
		_____ TRUSTEES.

Form of Clearing-House Loan Certificates Used in Atlanta, Ga.

No. _____	New York, _____ 190 .	\$ _____
New York Clearing-house Association		
<p>THIS CERTIFIES that there have been deposited with the NEW YORK CLEARING HOUSE ASSOCIATION by the _____</p> <p>_____ Dollars</p> <p>in United States Gold Coin, to be held as a special deposit, payable in said coin to the order of said Bank, on demand, to any Bank member of the New York Clearing-house Association only on surrender of this certificate indorsed by the Bank demanding payment of the same.</p>		
Registered at the New York Clearing-house. WM. SHERER, Manager.	by _____	NEW YORK CLEARING-HOUSE ASSOCIATION, Chairman Clearing-house Committee.
THIS CERTIFICATE IS ISSUED FOR CLEARING-HOUSE PURPOSES ONLY		

Form of Gold Certificate

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

example: during the panic of 1907, when many cities used checks bearing this expression or where the Clearing House check was used for pay-roll purposes, great crowds of workmen gathered about the Clearing House building in Philadelphia and demanded cash for their checks. The attempt made by the police to pacify and disperse them only complicated the situation inasmuch as the guardians of the law were equally unable to explain banking practices or speak foreign languages.

SPECIAL CLEARING HOUSE FEATURES.—Clearing Houses we have said may be divided into two classes as to functions exercised, or to be more exact, they are divided as to the number of functions. All Clearing Houses make use of the clearing facility and most of them, whether by rule or custom, make some provision for their mutual protection. For example: during the panic of 1907 many Clearing Houses which had no set rule looking to the relief of members, appointed a committee who met daily to discuss ways and means. In addition to this class of Clearing House there is another distinction consisting of those associations which go further, and not only organize for economy and strength, but also for profit and progress. Some of the most common practices of this latter class are regulation of exchange charges, interest rates, advertising restrictions and many other matters which are more strictly local in importance. Bankers, as a rule, are very reluctant to submit to any restrictions which prevents independence of action and, therefore, this class of Clearing House is in the decided minority. This is unfortunate, for under wise administration more real progress and general good can be accomplished through concerted action, than by policies adopted individually for selfish ends. Competition is essential in most industries, but in banking this is true only to a limited extent. Banks deal in a commodity which is subject to hard and fast rules set forth in the National Bank Act and legislative statutes. In many matters no bank can be a law unto itself without being a menace to the entire community and in the end bringing destruction upon itself and serious loss upon its neighbors. This fact has been shown too often to admit of serious contention. Therefore many Clearing Houses have a regular exchange of credit information, rules governing advertising, regulations fixing scales of exchange rates and many other similar measures which promote a healthy condition of financial stability and works for the welfare of banker and merchant alike. Of course, there have been and are records of Clearing House combines which exceed the proper limits of coercion and have sought to profit at the expense of a neighboring city, or have made regulations which do not conform to a proper spirit of general welfare, but such instances are of rare occurrence. The framing of rules which are binding upon banks who are members of Clearing Houses is not to be construed as being in restraint of trade, but rather as conforming to the axiom that what is best for the many is best for the few.

ADVANTAGES OF CLEARING HOUSE ORGANIZATIONS.—A better understanding of the principles which govern Clearing House Associations may be had by a brief recapitulation of the benefits which accrue from such organization, and some explanation to show why certain regula-

tions are desirable. The Articles of Associations, adopted by all Clearing Houses, usually set forth as the object of such association: (a) The effecting, at one place and at one time, of the daily exchanges between the several associated banks and the payment, at the same place, of the balances resulting from such exchanges. (b) To take such action in matters of common interest arising from or affecting their relations with banks in this and other localities as will tend to the fostering of sound and conservative methods of banking.

(1) **The Clearing Mechanism.**—Advantages of this facility are so apparent as to need no further elucidation. There are, however, other conveniences in addition to the economy of time, labor and money effected. That is the element of risk which is avoided by making it unnecessary to carry sums of money about the streets. By the use of the "Due-bill" feature this is also extended to the presentation of items at counters. The necessity of identification of bank messengers making such presentation is also avoided since Due-bills are payable only through the next clearing. The possibilities of clearing items on banks in outlying sections and foreign checks is a phase that has not yet been fully developed, but wherever it has been put in operation the result has been unqualified success.

Minor Regulations.—These take the form of rules governing the endorsement of items, certification of checks, return of unpaid paper and many other details such as the hours for opening and closing, methods of procedure upon the discovery of counterfeit money; in short these provisions are simply the Golden Rule applied to practical banking.

(2) **Scale of Exchange Charges.**—Until it is made possible for banks of different sections to settle with one another by some other medium than currency or their draft on a financial centre, the matter of exchange cost will continue to be a serious problem. It has been impractical to place this cost upon the maker of the check nor can his generosity be depended upon to defray the cost by maintaining at all times a compensatory balance. The most equitable method thus far evolved and one which is simplest in operation is to charge this cost upon checks as they are deposited and not when they are paid, assuming that checks received through the mail for remittance are technically deposited for one day. A uniformity of rates is essential to the success of this system of exchange charges and uniformity can only be secured by concerted action. Due care must be exercised in fixing the rate that it is not too high. More contention has been caused by unfair rates of exchange than any other feature of Clearing House regulations. On the other hand many bankers hold the theory that no banks should make a deduction for exchange in remitting for checks drawn on themselves, and if such a charge is necessary it should be paid by the maker of the check and not by the last endorser.

(3) **Interest on Deposits.**—The legal rate of interest which may be charged on commercial loans and many other forms of investment is fixed by law. It is also prescribed that banks may not loan more than a certain proportion of their deposits. The payment of interest on deposits, therefore, has certain limits beyond which it is not safe to go. In order to pay abnormal rates, banks sometimes do not hesi-

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tate to speculate inasmuch as conservative banking cannot produce above a certain rate of income. Speculation is the most dangerous practice in which a bank may indulge and therefore many Clearing Houses adopt a certain reasonable figure beyond which no member may go in allowing interest on deposits. There are variations such as a scale for deferring interest on out-of-town collections and regulations fixing the status of certain kinds of interest-bearing accounts.

(4) Discount Rate.—An attempt to control the rate for loans is seldom found in Clearing House regulations. It is a matter of supply and demand and is best left alone, for it will invariably regulate and adjust itself to conditions. However, in new districts, where capital is scarce and in demand, we find the Clearing Houses conserve the supply by fixing the rate.

(5) Advertising.—There is an unwritten law in banking which is found in other professions as well, to the effect that no bank shall advertise in any comparative sense. It will not do for the First National Bank to advertise that it is stronger than the Second National Bank, however true that may be. To insinuate or suggest in any way, however indirect, that a neighboring bank is not as strong as it should be, would result in an immediate run upon that institution. It is against the law for any individual to wilfully make statements reflecting upon a bank's condition that might result in a run upon it. Many bankers regard as contrary to good ethics, any advertisement which calls attention to the strength of the bank advertised. This opinion, however, is not generally held by advertisers. A plan adopted by a certain Clearing House requires the publishing of the statement of each member bank at regular intervals in uniform type and setting. Certain kinds of advertising are left to the discretion of the banks, for example: special features such as travellers' cheques, foreign exchange, bill of lading collections, safety deposit vaults, or again attention may be called to the character of personal service, courtesy, comfortable banking room, convenience of location and many other features which are all subjects for legitimate advertising. Such advertising as is used to educate the public into the use of banking facilities would seem to be proper matter for Clearing House rather than individual action.

(6) Exchange of Credit Information.—This is a function which is given little attention, but one which is capable of very useful development. The rule is too often a matter of each bank taking care of itself and the result is a business failure which affects every bank in town. Banks in the larger cities have a credit departments, but in smaller towns this is not always possible. A merchant unable to meet his paper upon maturity will open a new account and secure a loan to pay debts due his bank. There are large sections of the country where such practices enable firms to conduct most of their business upon borrowed capital. The exchange of proper credit information is often left to courtesy, but the best plan is to follow systematic methods for the proper according of loans. The next logical step which is now under discussion is the establishment of a central credit registration bureau through which must pass all paper issued by large mercantile houses and corporations.

(7) Clearing House Bank Examinations.—This has been

discussed elsewhere, but a few minor features are worthy of mention. It is clearly impossible for associations consisting of less than, let us say, five banks in a small town to employ an expert examiner to conduct exclusive examinations. The most common practice is to have a regulation which requires any member to submit to a thorough examination whenever the manager of the Clearing House may deem such action necessary. One of the most important duties of the Clearing House examiner is to keep proper credit records and he is expected to make recommendations upon local paper which he finds in his investigations. Thus it happens that his office becomes a self-constituted Clearing House credit bureau. It is not necessary, therefore, that a duly appointed Clearing House examiner should give his entire attention to the detail of examinations, but his work can be as combined with other duties that even very small Clearing Houses can find it advantageous to provide such an official.

(8) Mutual Assistance.—Through no fault of its own a bank may become the object of an attack by its depositors through groundless rumors that result in a run. At such a time, if left to itself, the bank will very likely be forced to close its doors or suffer a severe depletion in its reserves. Such trouble, if not checked at once, almost invariably spreads to other institutions. It is, therefore, as much a matter of self-protection as of assistance to a fellow member in distress that induces the Clearing House to render whatever temporary aid may be necessary to tide over the difficulty. Few Clearing Houses follow any fixed rule upon this question; the usual plan is that of committee who meet and adopt measures from day to day as occasion warrants.

CLEARING HOUSE STANDARDS.—Clearing Houses have been classified as to the functions exercised and as to the method of settlement of balances resulting from the exchanges. There is still another division, however, and upon a higher plane of ethics. Viewed in the manner in which they regulate and adopt the eight most common functions enumerated in the preceding caption, Clearing Houses may be further divided into two classes: those organized for profit and those organized for progress. These terms may or may not be synonymous in this connection. There is an unfortunate tendency in some quarters to shift the burden of transit problems, exchange costs and other banking questions upon some other city. Retaliation inevitably follows with the result that the whole banking fraternity throughout the country is saddled with additional burdens and costs which must be absorbed somewhere. False doctrines are the natural result. For example, we find certain short-sighted Clearing Houses charging very high rates of exchange in order to pay excessive interest rates on check balances. Again, during the panic of 1907, a few associations made an emergency ruling prohibiting any of their members from shipping gold or other currency. Such cities soon accumulated 30% to 50% reserve at the expense of neighboring banks and thereby greatly aggravated the general situation. These practices are not in accordance with what is commonly accepted as "sound and conservative methods of banking."

There are many principles involved in Clearing House organization which cannot be encompassed in rules and by-

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laws. True, we find a few cases where it is prescribed that any matter of public import, such as contributions in times of distress or disaster, measures requiring financial support such as education or civic improvement, must all be referred to the Clearing House for concerted action. But whether so restricted or not, all modern and progressive Clearing Houses read this idea into their Articles of Association. Their affairs are administered along lines laid down for the individual bank by an eminent American banker, Benjamin B. Comegys: "I venture the suggestion that a bank is created and sustained not merely for the purpose of making money and paying large dividends to the owners of its shares; as it is not the chief end of the individual man to make money and become rich. It is eminently proper that a merchant, manufacturer, mechanic, railroad manager or farmer should conduct his business on high principles, dealing justly with his competitors, taking no unfair advantage of the ignorance of others, requiring faithful service and giving just remuneration; and it is the office of a well-managed bank so to administer its affairs with reference to the well being of others, that it shall always be ready to aid, within proper limits, legitimate enterprises for the public good; not overworking or underpaying its employees, nor retaining in its employment persons of unworthy character, but holding up before the community in which it is located, a model bank in all its features. The community has a right to claim this of all its citizens, and it has an equal right to claim it of all banks and other financial institutions."

NEW CLEARING HOUSES.—The Clearing House, it must be borne in mind, is neither an innovation nor an experiment; nor is its usefulness limited to any particular locality or is its success dependent upon certain unusual conditions. Wherever there is to be found a community of sufficient size or importance to warrant the existence of three or more banks there we might expect to find these banks associated into some form of Clearing House although even in a crude state of organization. We might suppose the Clearing House to be a necessary adjunct of the banking function. But the facts do not bear out such statements. Out of 600 cities and towns in the United States where the organization of Clearing Houses would seem to be a matter of course, 182 have such associations, or about 27% (1911). There are numerous reasons in explanation of this state of affairs, but the chief factor is without doubt what might be termed the human element. If the history of the organization of any Clearing House might be written in narrative style, it would, no doubt, tell us of all the hopes, fears, doubts, ambitions, jealousies and, in fact, all the weaknesses that flesh is heir to which had first to be met and reckoned with before the organization was consummated. It is often said that of all business men, bankers are the least willing to entertain any new ideas. Certain it is the idea prevails that in associating together for the common good, the individual sacrifices something of value or suffers a detriment. In the organization of Clearing Houses quite the reverse is true. The members lose nothing of their individuality and are stronger from within and without. There is also the undoubted economy in time and money which can be accomplished only through the daily exchange of checks in one common place. Banks in non-clearing cities settle with

one another at uncertain periods, usually weekly. It is difficult, therefore, to secure prompt remittance from such places or reliable advice of payment. Less confidence is placed in banks which have no Clearing House organization strength behind them and who thus show themselves to lack far-sightedness, and a proper appreciation of modern business methods.

CLEARING HOUSE EXTENSION.—Since it may be readily shown that Clearing Houses exist for the benefit not only of the banks who are its members, but also for the welfare of every business interest in the country it follows that there should be an active campaign at all times for the extension of Clearing House facilities and activities. It would have been well, perhaps, had the National Bank Act provided for the establishment of the Clearing House at least so far as the proper exchange and settlement of checks is concerned. The greatest weakness of our system lies in the fact that it is composed of so many isolated and dismembered units. The tendency of the Clearing House is toward cohesion, co-operation, regularity and uniformity, bringing the power of these units together into a harmoniously working whole. The Clearing House elevates the vocation of banking to the level of science, and since science is knowledge, there must be education. Here we have the controlling influence that is back of every association of banks whether it be of the city, the county, the state or the nation. All are Clearing Houses for the exchange of ideas which make for progress. The worth of a bank and the calibre of the banker are known by the part they take in this work of education and advancement. The paying of dividends and the amassing of surplus and riches are secondary to the possession of knowledge which make these things possible. No bank can stand still; it must either move forward or it is left behind as others pass on.

Clearing House extension cannot be brought about by any automatic process; there must be an enlistment of well-educated men able and willing to spread the propaganda. A large and fruitful field is thus opened to the student of banking, a field of unlimited possibilities. Not a problem has arisen in the realm of finance in the last half century but could be solved by an extension of the plans and ideas that have grown out of Clearing House experience. In a statement issued by a large Chicago bank a few years ago we find these very significant words. "The Clearing Houses of the country do not even yet have any adequate conception of their power. Clearing House government is still in the process of evolution. It is more than a mere machine, in a large sense of the word it is Government, and it only needs further development to take the place of all police power as far as the world of credits is concerned, and credits really rule the world. Clearing Houses are providing a guarantee of solvency far more powerful than any system of Government guarantee which Congress can devise. But there are larger possibilities of development in the Clearing House system than even these achievements disclose. This country needs such a concentration and flexibility of reserves as would promote financial stability; and what the Government has been unable to do it is within the power of the Clearing Houses to accomplish whenever they are conscious of their power and ready to exercise it."

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THE CLEARING HOUSE PRINCIPLE APPLIED TO GENERAL BANKING.—The Clearing House is primarily an organization or association of banks. Whether its members are limited to a city or whether they extend into county, group or State bodies, the underlying principle is the same. In its crudest form the Clearing House is a plan and not a tangible thing—a mere mechanism for the exchange of checks. In the processes of evolution this function has retained only an incidental or secondary value. Indeed, there are at least two Clearing House Associations which do not clear checks at all. There is a distinction between the mere exchange of checks and the operation of the clearing principle. Clerks from twenty banks may meet in a common room and each exchange checks with the other, thus saving much time and annoyance, but unless use is made of the principle of offsetting debits with credits and the payment of the resulting balances only, there is not a true Clearing House. Thus we find that many so-called Clearing Houses are really "check exchanges" only. On the other hand, every bank performs the functions of a Clearing House for its depositors, and in a one-bank town this is especially true. Banking tends to eliminate the use of actual currency in favor of credit instruments or mere bookkeeping records against which currency is held as a reserve or redemption fund. Checks and drafts are the chief medium of exchange used, hence a consideration of the methods used in collecting these items and in making settlements, properly belongs with the general subject of "Clearing Houses." It has been shown elsewhere in this pamphlet how many Clearing Houses in this country actually collect and settle for country checks as well as local items. In nearly all foreign countries such transfers and settlements as are necessary, are all made in accordance with true clearing principles. It may be said, therefore, that the nearer banks approach to Clearing House methods in the collection and settlement of all checks, whether city or transit items, the nearer they come to scientifically correct methods.

COLLECTIONS AND TRANSITS.—The collection items received by a bank from its customers or from corresponding banks include checks, bills of exchange, drafts, acceptances and notes. A check may be defined as a written order on a bank or banker for the payment of money. It is always payable on demand, although not so expressed. A bill of exchange or draft may be defined as an order drawn by one person, called the drawer, on another person called the drawee, for the payment of money to a third party called the payee, the amount to be charged to the drawer. The drawer and drawee usually reside in different places, but sometimes reside in the same place. Bills of exchange and drafts are drawn payable at sight, or a certain number of days or months after sight or date. In the first instance they are called sight drafts; in the second instance they are known as time drafts. Unless the drawee wishes to pay a time draft or bill when presented, he writes across the face of the paper the word, "accepted" with his signature and the date. Or, if the draft is payable a certain time after date, he may simply write his name with or without the word "accepted." This means that the drawee assents to the terms of the bill or draft and binds himself to honor

it at maturity. It then becomes known as an "acceptance" and is similar to a note given for the same time and amount, the acceptor of a draft being bound like the maker of the note. A note is a promise made in writing by one party called the maker to pay a sum of money to another party called the payee, or to his order. Notes are made payable on demand or at a fixed time after date. Bills, drafts and notes form the bulk of collection items handled by a bank; but occasionally a check is sent for collection because either the drawer of the check or the bank's customer is not in good credit. In some of the larger banks the collection of interest coupons is no inconsiderable part of the work. Items left with a bank for collection, where the items are few in number, are entered in the customer's bank book "short." It is usual to give the name of payer, amount, date of maturity or sight, as the case may be, and whether protest or no protest. These entries are sometimes made in the back of the deposit book in a space reserved for that purpose, or if the number of items is large, a separate book is generally used. At the time of receipt of collection items, instructions should be carefully noted, whether taken subject to protest, and in regard to delivery of bills of lading attached to drafts. If instructions are not given, they should be asked for. When the item has to be forwarded for collection, these instructions should be sent to the collecting bank for its guidance.

CITY COLLECTIONS.—Collections naturally divide into two classes, city and foreign. City collections include all paper received from customers or from correspondent banks or business houses in other places, payable or collectible in the city or town in which the collecting bank is located. Foreign collections are those which must be sent to out-of-town correspondents to be collected. In a small bank the records of both city and foreign collections are frequently kept by the same clerk, the payments for notes, drafts, etc., being made to the Receiving Teller. Larger banks have separate departments, in charge of competent heads, for each class of items. The Note Teller frequently has charge of city collections, making the records as well as receiving payment for these collections. Time paper is entered in the "City Collection Register," a book of convenient size, in which are entered in columns appropriate to the purpose, the number of the item given by the collecting bank, the name of the payer, due date or sight, as the case may be, sender's number, name of party or bank for which the account is collected, the amount, and the explanation column. In this last column may be entered "Protest" or "No Protest," as the case may be, and the final disposition of the item. These entries follow each other across the paper on a single line.

The other principal book used is the "City Collection Tickler." This book is divided into spaces for each day of the month for the twelve months of the year or longer. The record in this book under the proper due date of each item is the number of the item given by the collecting bank, the name of payer and the amount. These items are then arranged in a wallet according to maturities. As the sending of notices of such maturities is the next thing in order, at this point it may be said that it is a good plan to make out the notice direct from the note or acceptance and then check

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up these notices in the tickler, thereby guarding against mistake both in the sending of notices and in the filing of the paper.

When City Collection items fall due, the Note Teller makes a record of the name of the account to be credited with the proceeds thereof, together with the name of payer and amount. Sight items received the same day are recorded in the same way and given to the messenger or runner to present and collect. At the close of the day's work this record shows the disposition made of an item, whether paid, returned or protested, and is the medium through which credit is given for collections paid.

FOREIGN COLLECTIONS.—In the "Foreign Collection Department," there are several general methods of keeping the record of out-of-town items sent to the correspondent banks for collection. Whatever the method, however, the common aim is, upon the advice of payment of a given item, to readily locate the name of the party or bank for whose account the collection has been made, so that credit can be given without delay, and the work of the department carried on with dispatch. Some banks use the "Foreign Collection Register." The description of the "City Collection Register" will fit this book if we add a few columns, one for the name of the bank to which sent, one for the name of the place where payable, and columns with the headings "When Received" and "When Sent."

The numbers given to items by the sending bank appear on the Foreign Collection Register in consecutive order, and where this system is used the numbers play a most important part, correspondents being requested to advise payment by number. For this purpose a printed slip is usually attached to the item to be collected. Some banks use the method just described for miscellaneous collections, while for a regular correspondent the items for such correspondents are entered under a separate heading, the register being spaced off as a ledger would be with a number of pages for each collecting bank. In some banks no books are used. The entire record is made and the appropriate credits and charges in other departments are given through the use of slips. A white slip is used for credits and a pink one for charges, each showing the name of the payer, where payable, the due date and the date sent.

Although not expressly conferred in the National Bank Act nor in most State banking laws, a national or State bank has the undoubted power to undertake collections and incur liability for any violation of duty in that regard. This power is universally recognized by the courts. The relation which the collecting bank assumes to its depositor or principal is held by some courts to be that of bailee, and by others agent. The undertaking is not gratuitous for the general profits derived from handling the business and the advantage from rates of exchange constitute a sufficient consideration. The duty of a bank in making collections is to use due diligence. What due diligence demands depends on the particular circumstances surrounding each individual case. In a general way it may be said that "the bank must use reasonable care and skill keeping in mind the best interests of its principal." In the collection of out-of-town items the principal duty is in the selection of a correspondent. In the United States it is held to be negligent for a

bank to send a check to the bank on which drawn, or a note to the bank where made payable provided there is another bank in good standing in the same place, and in some States, the bank is held negligent although the payer to whom the items forwarded is the only bank in the place.

The question whether or not a bank is liable for the default of its correspondent or sub-agent in the collection of an item, is one in which there is great conflict of decision. Some authorities hold that the contract of a bank is "to do the thing;" others that the contract is "to procure it to be done," and out of these fundamental distinctions arise the divergent views held by courts of last resort in the several States. "The Supreme Court of the United States lays down the general rule of law to be that the initial bank is liable for such damages as had been sustained by the negligence of its sub-agent or collecting bank." This rule is modified in many of the States and is as follows: "The initial bank if it selects as an agent one who is competent and worthy of trust and transmits the paper to him, its duty is done, and the owner of the collection must look to the sub-agent for any default of which he is guilty."

A bank, however, may vary its contract by express agreement, and this banks seek to do by printed notices on their deposit tickets, or on the inside cover of pass books, to the effect that the bank assumes no responsibility for the collection of any item beyond due care and diligence in the selection of collecting agents, and that items are taken at the risk of the customer and that the bank will not be responsible for any loss through failure or default of the bank's agent.

DUE DILIGENCE.—Notwithstanding the fact that the best of care may be taken in the handling of collection items, accidents will sometimes occur. Should an item subject to protest be lost it may be protested by description. For this purpose it is necessary to have a record of the indorsers on paper of every description and on checks and drafts the name of the drawer in addition. This information can be very conveniently given on the reverse side of the white slip, where the "slip" system is used, or may be incorporated in the Collection Register by the use of an extra column.

Prompt returns are often a matter of great importance to the bank's customers. There are cases where a merchant or manufacturer has held a shipment of goods ordered by a customer, awaiting returns or advice of payment of a previous collection long past due and which should have been either remitted for or returned unpaid. The delay in a case of this kind may arise from a number of causes. The fault may be the tardiness of the collecting bank, or it may be that the initial bank has sent the item by a circuitous route, or, perhaps, the item or its advice has gone astray in the mails. There are cases on record where banks have been held to be negligent in sending items for collection by an indirect route. The fact is that it is good business policy to forward items direct, or at least to adopt some means of getting prompt advice of payment. Some banks handling a large collection business attach a self-addressed postal card to each item which is sent indirectly, requesting the collecting bank to give prompt advice as to the payment or non-payment of such item; or what disposition has been made of it.

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Some points will now be noted where the collections are made in the place in which the bank is located. Although at the risk of repetition, this admonition is given—always follow the instructions of correspondents. This particularly applies to the protesting of sight and time paper, and if the instructions are to protest, such items should be given to the Notary whether or not there is an endorser or drawer to be held. In the absence of instructions, paper with a drawer or endorser who would be released without protest, should also be protested. In the event of non-payment or non-acceptance of collection items, if possible get reasons for such refusal and transmit the answer to your correspondent. A popular device is the printed slip returned with the item and containing a list of the possible reasons for refusal, the correct one being designated by a check mark.

The presenting of paper for payment or acceptance is another duty requiring due care and diligence. The courts hold it to be the duty of a bank which receives a time draft for collection to present it at once for acceptance and that the bank will be liable for any loss which occurs from failure to perform this duty. In the presentment of paper for acceptance the requirement of the law seems to be more exacting than it is concerning paper presented for payment. In the first case presentment is required to be made "to the drawee or some person authorized to accept or refuse acceptance on his behalf." In the second instance, presentment must be made to the person primarily liable on the instrument, or, if he is absent or inaccessible, to any person found at the place where the presentment is made. So in handling drafts or bills forwarded for acceptance the onus seems to be on the bank to exhaust every reasonable means of locating the drawee, or his authorized agent. The drawee of a draft for acceptance has twenty-four hours in which to decide whether or not he will accept and he can demand that the draft or bill be left with him for that length of time.

A matter requiring discretion and judgment is in the acceptance of uncertified checks in payment of notes and drafts as after the surrender of paper to the payer, the collecting bank is liable for any default in connection therewith. Under strict rules of law, a collecting bank is only authorized to receive actual money in payment of a collection item, but some courts have held the bank justified, by custom, in receiving a certified check and not responsible where such check is dishonored. But the authority to surrender collection items in exchange for certified checks is not yet universally established. Regarding notes made payable at banks, the practice varies in the different cities according to the rules established by the Clearing House Associations in such places. In the absence of special arrangements for clearing this class of items, these notes should be presented at the counter of the bank where made payable for payment or certification.

BILLS OF LADING.—Where a draft with bill of lading attached is received for collection payable "on arrival of goods" or "on arrival of car," the practice in some well managed banks is to make daily inquiry of the agents of the line by which the shipment has been made, thus securing prompt notice of the arrival of the goods. This course insures prompt presentation of the draft, thus avoiding any liability which might arise through any delay in its pre-

sentment. In the event of paper subject to protest remaining unpaid at three o'clock, and especially if there is reason to believe that such non-payment is the result of an oversight, it is good business policy to notify the payers thus giving them an opportunity to save their paper from protest, and thereby protect their good names and credit. The bank by following such a course may make a friend and add to its popularity.

A bank receives a time draft with bill of lading attached. On the acceptance of the draft, shall it deliver the bill of lading? Delivery of the bill of lading is, in most cases, the delivery of the goods which they describe, and cases have arisen where banks have surrendered the bill of lading on the acceptance of a draft, and the draft has been dishonored at maturity. In the absence of specific or implied instructions as to whether or not the bill of lading is to be surrendered on the acceptance of a time draft, the rule as given, is: "In the case of the time draft where the bill of lading runs in the name of, and by its terms the property covered by it to be delivered to, the party on whom the draft is drawn, then the bill of lading is to be delivered on the acceptance of the draft. Should the collecting bank refuse under these circumstances to deliver the bill of lading, then the maker and the endorser of the draft are released and the collecting bank becomes responsible for the amount of the draft. If, by the terms of the bill of lading accompanying the time draft, or if by indorsement it should appear that it did not run to the person on whom the draft is drawn, then it must not be delivered until payment of the draft."

Very frequently we see stamped on a draft with a bill of lading attached, or on the bill of lading itself, the notice of the collecting bank, or of one of the banks in the chain of transmission, disclaiming all responsibility for the quality, condition, weight, etc., of the goods or merchandise covered by the bill of lading. This precaution is taken because in some of the States banks advancing money on the security of bills of lading have been held to be warrantors of the goods or merchandise of which the bill of lading is the symbol. The necessity for the use of such a disclaimer is, however, rapidly passing away, as but two of the States now hold to this doctrine.

EXCHANGE CHARGES.—A custom much more frequent in the past than now, and one which has always been frowned on by banks, is that of drawing drafts or bills payable "with exchange." By this means the drawer of a draft or bill seeks to have the drawee pay the difference in exchange between the places of residence of the two parties. In the past the question has been raised—Does the use of these words on an instrument render it non-negotiable because of uncertainty as to the amount to be paid? While it has been definitely settled that the use of these or similar words does not impair the negotiability of an instrument, yet the better way is, if the drawer is to pay the exchange, to include this in the amount for which the draft is drawn. In collecting drafts of this description, in the absence of special instructions to demand exchange, or unless the amount be quite large, it is common for banks to ignore the matter altogether. Instead of "with exchange" the form is sometimes "in exchange" or "in New York Exchange." In the latter case if the collecting bank is long on New York

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funds it usually makes no demand, but if it is short on these funds it will request a New York draft, usually receiving a draft issued by one of the local banks on its New York correspondent.

The drawee may elect, however, to pay the cost of exchange in cash giving a check on his local bank, or he may tender in payment his own check drawn on a New York bank or banker, should he carry a balance in that city. In respect to this last feature of the matter a bank officer of long experience who is also an author of some repute, makes this pertinent comment. "If the collecting bank attempts to discriminate regarding the character of the exchange on New York that is offered and raises the question whether or not the tendered exchange is of good repute it may find itself in an unwelcome controversy with the payer, and it may, in the end, be difficult to say who has the right to decide upon the repute of the exchange tendered."

This consideration coupled with the question of responsibility in the acceptance of the kind of exchange offered is good reason for a bank declining to handle paper drawn in this way. The writer knows of one bank which will not undertake to collect paper of this description. Furthermore, some courts have made a distinction between "in exchange" and "with exchange" and in the former case held the paper not negotiable because not payable in money but in a commodity, namely, a bill of exchange. This is an additional reason for declining this class of paper. The matter of collection charges is one of considerable importance, for other things being equal, the bank which can give the lowest rates has the advantage in holding old and in securing new business. A bank should be compensated for this work and on a given point is entitled to make a charge on pure collection business in excess of what the mere exchange rate might be for cash items. It is rarely that a bank's customer objects to paying a reasonable charge where his collections are made in a satisfactory manner. It is the custom of some banks to make a charge on all items left for collection, whether or not the item is paid. This refers more particularly to items sent to a collecting bank by out-of-town correspondents who have no deposit account with the bank.

In the consideration of exchange charges and the differences of opinion regarding such charges referred to elsewhere, distinction must be drawn between the charge made for remitting in payment of checks sent by mail; collection charges paid by depositors in many cities for the collection of out-of-town checks, and charges made by banks for presenting and collecting sight drafts and similar items. An argument against an exchange charge for remitting for "self-checks" need not, therefore, be considered, as an argument against other collection charges. The real question hinges upon the cost being placed where it belongs in each case.

ENDORSEMENT.—The question of endorsements is one of considerable importance. Up to 1893 the restrictive form of endorsement was used on all items whether taken as cash or for collection, the form generally reading "Pay to the order of receiving bank for collection, for account of sending bank," but a case came before the courts of New York which materially changed this custom. It was held that the

receiving bank of paper indorsed to it "for collection" was a mere agent and not responsible for genuineness after payment over of the proceeds to its principal. The rule adopted by the New York Clearing House and substantially followed by the other clearing house associations throughout the country excluding all restrictively endorsed paper unless guaranteed applies only to items collected through the exchanges. Usually these items represent cash, having been received on deposit and credit given therefor, or the cash paid out at once, by the initial bank; the exceptions being collection items pure, in the form of a note or an acceptance made payable at a bank or an occasional check.

While the strict language of the resolution adopted by the New York Clearing House Association limits the operation of the rule to items collected through the exchanges yet in all of the principal cities where banks are located who do collecting for other banks, these collecting banks have quite generally set their faces against restrictive endorsements for the reason that they wish to be protected in any contingency which might arise, by the warranties that go with a general endorsement. Some authorities, insist, however, that a bank in acting as the agent in the collection of items, should never assume the warranties of a general endorser. This contention would more naturally appeal to country bankers, and an argument in support of the respective form of endorsement is given briefly, as follows: It is a settled principal of law that in the absence of an indication to the contrary, the form of the endorsement controls the title or ownership to negotiable paper. The title to or ownership of an item left with a bank for collection remaining in the customer and the bank's relation being simply that of an agent, this form of endorsement gives to all parties through whose hands it passes, notice of this ownership, and that the collecting bank or its agents acquires no title therein.

Where a collecting bank has notice that the prior bank has no interest in an item transmitted for collection and that it is acting merely in the capacity of an agent, the collecting bank cannot under any circumstances retain the proceeds as against the true owner. But where the collecting bank has not notice and the prior bank is indebted to it in general balance in the event of the failure of the prior bank, it is generally held that the collecting bank can hold the proceeds of a collection against the true owner. The right of lien rests upon the further consideration, viz.: this, that in the case of negotiable paper, one who successfully enforces a lien must be a holder for value and without notice. In most of the States, in fact, in all of the States which have adopted the negotiable instrument law (Wisconsin excepted), an antecedent or pre-existing debt constitutes value. The qualifications without notice expressed in full is "without notice of equities existing between prior parties."

It may be contended that these considerations are of interest to the customer of a bank rather than to a bank, and that the customer should safeguard his own interests by using the appropriate form of endorsements on his collection items, rather than of expecting the bank to protect these interests for him. It may also be claimed that where the customer leaves an item for collection endorsed in blank, or to order, and the item is sent direct to the collecting bank,

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that in the event of default by either bank, the position of the customer will not be improved by the mere fact that the sending bank had endorsed the item restrictively. As to the latter contention, we answer that neither is the position of either the bank or its customer made worse by the use of the restrictive form of endorsement, and that where one or more banks intervene between the initial and the collecting banks in the chain of transmission, the rights of the bank and of its customer are preserved, by the use of such endorsement in any contingency which may arise.

As to the first contention, a bank has items to be collected which belong to it, viz.: discounted bills or notes. It will surely not be denied that its duty to its stockholders makes it incumbent on a bank to take every precaution in the collection of this paper, so as to protect the bank against possible loss. As this is the course which prudence dictates in such a case, and as it is the duty of the bank as agent to act as a prudent man would in his own affairs, it becomes its duty in the forwarding of items left for collection to use that form of endorsement which will best preserve the rights of a customer in possible contingencies which might arise. There is perhaps no better general rule of business policy for a bank to adopt in the management of its collection department than that quoted as the measure of its legal duty, and if a bank uses "ordinary care and diligence," always "keeping in mind the best interests of its principal," its success in holding old and in securing new business should be assured; provided, of course, that it is in a position to collect as cheaply as will its competitors.

TRANSIT DEPARTMENTS.—The transit department of a bank receives its name from the class of items it handles. Transit items are those drawn on other points which have been received as cash and must be collected through the mails. Such collections are otherwise known as "Foreign items" and "Collection items." The value of the item "Transit items" is manifest as it draws a sharp distinction between items that have been credited to a customer's account upon receipt, and those that are taken for "collection only" subject to final payment. In this latter mentioned class are truly "collection items," being merely taken by the bank to be forwarded for payment, and not credited to parties from whom received until actually collected. The differences between the above class of items are therefore apparent. Then again, the term "foreign items" may be a sufficient distinction for such items in a small town or city other than those dealing in foreign trade. In such banks, however, this term would be confused. Bills of exchange, checks that are drawn on points abroad, etc., are the general terms for "foreign items." The above distinction is made because the use of the term "transit department," while in use for several years, has not yet been universally adopted. Its value, however, is apparent.

The work of the transit department is to receive transit items, whether from bank or individual customers, and to reforward such items, correctly routed, on the day received. The details of a transit department in a large bank are numerous and require careful attention. In the process of receiving and reforwarding transit items a bank can decrease its profits to a surprising degree if record is not kept on every item of expenditure. Principally, of course, is the

agreement between the bank and its correspondents relative to the cost of collection.

VALUE OF SYSTEM.—In keeping record of details in a transit department the strictest system is necessary. The most modern and best form of record for information is probably the card system. With this system any bank can keep the names of its correspondents in every town, together with all necessary information concerning them. In a large bank, the manager need not fill up the cards with information that will be found at his disposal in the analysis department, but rather with such additional information as pertains principally to the collection of his items. If the bank be a small one, this system of cards can also embrace much of the class of information found in the analysis department of a larger bank.

Now we come to the different class of correspondents to whom transit items would be sent. These are three: (1) Banks with whom the sending bank has accounts, such as those in reserve cities; (2) Those that have accounts with the sending bank; (3) Those banks in towns where the sending bank sends items for payment by remittance. The first mentioned accounts are mostly general ledger accounts, banks which the sending bank would draw on. The second class are those whose accounts are kept on the Banks and Bankers Ledger. They are credited with what they send and debited with what they would draw on the sending bank. The third class of correspondents are those with whom the sending bank has really the most to do. The transit department will, therefore, if in a large city, receive the greatest portion of its work from its bank accounts. They will send in by far the greatest number of transit items. The next largest supply will be received from the individual depositors, and the other items will be picked up from the various departments of the bank in comparatively small numbers. In a country bank, however, conditions are just the opposite. The larger number of outside items would be received from depositors, as its bank customers would be fewer.

As all departments in a bank are represented on the bank's general ledger, so also the amount of money forwarded in the transit department must be taken care of. Therefore, the general ledger accounts are either "Funds in Transit" or "Sundry Banks." The amount when sent out by the transit department is debited to the above account, and when remittances have been received, it is credited. The other general ledger account with which the transit department is closely linked is, of course, the "Exchange Account Domestic." To that account is credited the amount charged a bank or individual customer, or outside items taken for credit, and to that account is also debited by the transit department the cost for collecting various outstanding items.

While the "Exchange Account Domestic" is to a large extent the profit or loss account that is directly connected with the transit department, and should be held down to as large an extent as possible, there is another and a greater source of profit accruing to a bank (indirectly, if you please) from its transit department, and that is interest on bank balances which are secured by means of offering to par a certain territory in bulk for a compensating balance.

Banks in Chicago, St. Louis, Philadelphia, Baltimore and

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other reserve cities enter into arrangements with their correspondents under which they agree to handle cash items on their natural territory in bulk and without regard to a par list, for a balance which will compensate them for the service. In other words, if a bank in Harrisburg, Pa., for example, sends to its Philadelphia correspondent out-of-town cash items on which the latter bank loses \$15 per month in exchange, but realizes a profit of \$30 from the average balance carried, the net result is satisfactory, and the account, of course, a profitable one. In handling accounts on this basis the analysis department must be depended upon to see that balances are carried as agreed.

UNIVERSAL NUMERICAL SYSTEM.—The Clearing House Section of the American Bankers' Association has devised a numerical system which simplifies transit work. Numbers from one to forty-nine, inclusive, are used to designate the reserve cities, each city being provided with a number of its own to be used as a prefix in numbering the banks in these cities. The Clearing House numbers in each of the cities are used to designate the clearing house banks and additional numbers provided for banks which have no clearing house numbers. Numbers from fifty to ninety-nine, inclusive, are used to designate States. The State numbers are used as a prefix for numbering banks which are located outside of the forty-nine cities already provided for. In numbering the reserve cities Brooklyn is included with New York City; Kansas City, a Kns., with Kansas City, Mo., and South Omaha with Omaha. As there are fifty reserve cities this left two numbers not used. These numbers have been given Buffalo and Memphis. Buffalo was selected because it is the tenth city in population and by giving Buffalo a number of its own the Clearing House numbers can be used for Rochester, whose population is 218,000, the next largest city in the State. Memphis was selected owing to the scarcity of reserve cities in the South and on account of its importance as a collecting center and also to permit the use of Clearing House numbers for Nashville with a population of 110,000, the next largest city in the State and which is also an important collecting center.

The forty-nine cities have been numbered according to population as shown by the census of 1910, so that the largest cities have the small numbers. This plan reduces the labor of registering items in the transit department to a minimum as a large proportion of items are drawn on these cities. For example, a certain New York bank may be designated 1-8, a Chicago bank 2-1, a Philadelphia bank 3-39. Thus every bank in the United States is assigned a distinctive number, the prefix denoting the geographical location and the second or affix number denoting the name of the bank. These numbers, read directly from the face of the check or endorsement stamp, are substituted for names and addresses in making transit or other records. The extent to which the numbers may thus be used is a matter for each individual bank to determine for itself, in accordance with its accounting system. It is imperative, however, that all checks, drafts and endorsement stamps should show the numbers so that every bank that cares to do so can make use of this time and labor-saving system. It is obvious that every banker would wish to have his checks in such form that they may be conveniently handled by all other banks

and it is expected that within a very short time every check in circulation will show the transit number of the paying bank.

By the use of individual numbers for the forty-nine cities the banks in forty-eight other cities can be designated by their Clearing House numbers. For instance, in New York State three cities have been given numbers of their own, namely, New York No. 1, Buffalo No. 10 and Albany No. 29. The next city in the State, according to population, is Rochester, which is the first city numbered with the State prefix which is number fifty. The Rochester banks are numbered 50-1, 50-2, etc. The system, therefore, permits the use of Clearing House numbers to designate banks in ninety-seven of the principal cities of the country. The Treasurer and Assistant Treasurers of the United States and the postoffices in the reserve cities have been given numbers. Numbers have not been provided for express companies, railroads or mercantile firms. If the Clearing House Associations in any of the forty-nine numbered cities wish to have additional numbers supplied for express companies, railroads, etc., they can forward a list to the American Bankers' Association and the numbers can be provided.

The State numbers have been divided into five sections as follows:

Eastern	50 to 58
South Eastern	60 to 69
Central	70 to 79
South Western	80 to 88
Western	90 to 99

The States containing the principal collecting centers, namely, New York, Pennsylvania, Illinois, Missouri and California, have been given the first numbers in their respective sections: 50-60-70-80-90, to facilitate the listing of items on the adding machine as only one key is used to print these numbers and also to indicate that the following nine numbers in each section represent the States in the same territory. Numbers 59 and 89 are left blank and can be used in the future should it become necessary to number the banks in our Island possessions and Alaska. The system of numbering the States in groups according to territory should also prove to be of advantage in memorizing the State numbers. With the exception of five States representing each section the States are numbered in alphabetical order in each section.

The numbers of the different cities and States are as follows:

CITIES.	
1. New York City	17. Minneapolis, Minn.
2. Chicago, Ill.	18. Kansas City, Mo.
3. Philadelphia, Pa.	19. Seattle, Wash.
4. St. Louis, Mo.	20. Indianapolis, Ind.
5. Boston, Mass.	21. Louisville, Ky.
6. Cleveland, O.	22. St. Paul, Minn.
7. Baltimore, Md.	23. Denver, Colo.
8. Pittsburg, Pa.	24. Portland, Ore.
9. Detroit, Mich.	25. Columbus, O.
10. Buffalo, N. Y.	26. Memphis, Tenn.
11. San Francisco, Cal.	27. Omaha, Neb.
12. Milwaukee, Wis.	28. Spokane, Wash.
13. Cincinnati, O.	29. Albany, N. Y.
14. New Orleans, La.	30. San Antonio, Tex.
15. Washington, D. C.	31. Salt Lake City, Utah.
16. Los Angeles, Cal.	32. Dallas, Tex.
	33. Des Moines, Ia.

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CITIES

- | | |
|--------------------------|-----------------|
| 34. Tacoma, Wash. | 66. N. Carolina |
| 35. Houston, Tex. | 67. S. Carolina |
| 36. St. Joseph, Mo. | 68. Virginia |
| 37. Ft. Worth, Tex. | 69. W. Virginia |
| 38. Savannah, Ga. | 70. Illinois |
| 39. Oklahoma City, Okla. | 71. Indiana |
| 40. Wichita, Kans. | 72. Iowa |
| 41. Sioux City, Ia. | 73. Kentucky |
| 42. Pueblo, Colo. | 74. Michigan |
| 43. Lincoln, Neb. | 75. Minnesota |
| 44. Topeka, Kans. | 76. Nebraska |
| 45. Dubuque, Ia. | 77. N. Dakota |
| 46. Galveston, Tex. | 78. S. Dakota |
| 47. Cedar Rapids, Ia. | 79. Wisconsin |
| 48. Waco, Tex. | 80. Missouri |
| 49. Muskogee, Okla. | 81. Arkansas |

STATES.

- | | |
|-------------------|-----------------|
| 50. New York | 82. Colorado |
| 51. Connecticut | 83. Kansas |
| 52. Maine | 84. Louisiana |
| 53. Massachusetts | 85. Mississippi |
| 54. New Hampshire | 86. Oklahoma |
| 55. New Jersey | 87. Tennessee |
| 56. Ohio | 88. Texas |
| 57. Rhode Island | 89. Texas |
| 58. Vermont | 90. California |
| 59. Pennsylvania | 91. Arizona |
| 60. Alabama | 92. Idaho |
| 61. Delaware | 93. Montana |
| 62. Delaware | 94. Nevada |
| 63. Florida | 95. New Mexico |
| 64. Georgia | 96. Oregon |
| 65. Maryland | 97. Utah |
| | 98. Washington |
| | 99. Wyoming |

Numbers have been provided for all of the 2,200 banks in the forty-nine numbered cities and also in the forty-eight other cities showing the numbers for the first city in each State numbered with the State prefix. The remaining 25,000 banks of the country are to be numbered according to the following plan: The first numbers to be given to the banks in the largest cities and to be continued in the relative order of the population of the cities in each State. Each bank to be numbered in consecutive order according to seniority in each city. When there is only one bank in a town the banks are to be numbered in alphabetical order according to towns, the one bank towns to be numbered last. Blank numbers are to be left only in cities of 5,000 population and over. The blank numbers to be left as follows: Population of 5,000 to 25,000, two blank numbers; 25,000 to 50,000, three blank numbers; 50,000 to 100,000, five blank numbers; 100,000 and over, six blank numbers.

Trust and Savings Institutions

Trust and Savings Institutions are important factors in American banking. Trust companies generally do more or less commercial business in accordance with regular banking methods, and many savings banks receive deposits subject to check and make commercial loans. The distinction among such institutions is therefore indefinite. The following lessons aim to cover in concise form the functions of trust and savings institutions and has been prepared under the supervision of the Trust Company and Savings Bank Sections of the American Bankers Association. Each of these Sections publishes a book of forms suitable to supplement the instruction herein contained.

It was both an apt and a happy metaphor employed by a State official recently wherein he referred to the modern trust company as the department store of banking. For such it is. Practically unrestricted as to the variety and the extent of the trust functions it may assume, this extremely important branch of banking has been making for itself by a century and more of unsullied history, a bond with the public which is both permanent and satisfactory. All business is based upon confidence and trust, but trust companies occupy a peculiar and far more important position, for in them center trust and confidence in their highest form in the everyday business of the world. To trust companies, acting as trustee, guardian, agent, conservator and receiver, are annually entrusted many millions of dollars. The observance of inexorable laws is one of the chief features which distinguish a trust company from an individual when acting in the various fiduciary capacities. Its charter enables it to perform a multiplicity of functions, but the laws of the various States have been especially enacted with a view to safeguarding trust funds. In fact, so prevalent has become the tendency of legislatures to make more safeguards that it would seem as though statute could do no more. To the everlasting credit of the trust companies it should be said that such legislation is always certain of a faithful ally in the officials of the companies, who realize that public confidence is enhanced thereby, and that all honestly conducted banking institutions have nothing to fear from the most rigid enactments regarding the manner of investing trust funds.

A trust company is encompassed by statutes, especially devised for the purpose of protecting any business, estate or fund, entrusted to it; the individual is all too often governed only by common sense, and when trust funds are involved, something more than common sense is of fundamental importance. Such is the unvarying exactness with which every provision of the law must be observed when a trust company is acting as executor, administrator, guardian, trustee or agent. The law particularly says in what manner all trusteeships shall be respected. Personal opinions and prejudices have no place in such an equation. Ordinarily individuals who have the honor, the ability and the capacity to serve for others in any fiduciary position, usually have sufficient of their own affairs to look after to deter them from taking on added responsibilities for which they cannot make adequate provision without neglect of their own interests. But it is the everyday business of the modern trust company to look after the business of others, to make the necessities of an estate its chief concern and to fulfill every duty, both expressed and implied, promptly and faithfully, and in accordance with laws, power to alter which is vested only in the general courts of the several States. The experience of an individual must by its very nature be limited. There is no man, however long and varied may be his business career, who is not influenced by his own ideas in executing a trust. It is practically impossible for him to see beyond his personal experience. With a trust company, all action is based on the collective wisdom and judgment of several men, all experts in their particular branch of the business, who bring their several experiences to bear on whatever perplexing problem may be submitted for decision.

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Just as the merchant who carries a stock, varying from a paper of pins to an automobile, offers superior facilities to his patrons over the dealer who confines himself to one branch of business, so the modern trust company, with its general banking, its safe deposit, its trust and savings departments, surpasses the individual as a trustworthy medium for discharging all the responsibilities that may be put upon it.

Perhaps, no act of a man's life so accurately portrays him to the world as the provisions he writes into his will. In death John Pierpont Morgan yet speaketh. Religion, business and family life are all richer for that extraordinary document of a great captain of finance whose character shines so luminously in his last testament. Realizing that, perhaps, some of the provisions may demand a too long continued and it may be a too exacting responsibility for the individual executors, Mr. Morgan specifically declared that the executors might at any time terminate their responsibility and place the estate in the control of a trust company.

Trust companies owe their origin to the general growth and development of modern business methods. Through the channels of commerce and trade, people accumulate property and wealth. In the event of a person's death his affairs must be taken in charge and the property distributed among the heirs in accordance with the law. Also, in the case of a minor being left without a guardian, or of incompetent persons, and in numerous other instances, some one who is competent must be appointed to manage the affairs. Formerly individuals were always appointed to act in such capacities, but in the evolution of the business structure it became evident that individuals could not always be depended upon to act faithfully or intelligently, while complications were often caused by their moving away or dying before the fulfillment of their trust. These things made it apparent that corporations whose existence and location would be permanent, and under the management of men of integrity and proper training, would find favor with the public, consequently they came into being. Originally formed to act only in capacities connected with the administration of estates and trust funds, trust companies have gradually extended their sphere of usefulness, until now their lines are so closely interwoven with our commercial fabric that it would be practically impossible to do without them.

The various capacities in which trust companies ordinarily act are as follows: (1) Executor of wills, (2) Administrator of intestate estates, (3) Trustee under wills and deeds of trust, (4) Guardian of minors, (5) Conservator or committee of incompetents, (6) Agents for individuals, (7) Transfer agent and registrar for corporations, (8) Fiscal agent for governments, States, municipalities and corporations, (9) Trustee under mortgages, (10) Assignee and receiver for firms and corporations, (11) Guarantor of surety bonds and real estate titles. In addition to the foregoing, departments are conducted for (1) General banking business, (2) Savings deposits, (3) Safe deposit of valuables, (4) Care of real estate, (5) Bonds and investments for investors. Such functions indicate the general range of the field of trust companies, and cover practically every capacity in which an individual may act. While different from Na-

tional banks, trust companies offer their customers nearly every facility which National and State banks provide, except the issuance of circulating notes, while in addition they can render many services outside the scope of the largest and best equipped banks.

Savings banking is not confined to institutions known as "Savings Banks." In many communities the density of population does not warrant the establishment of more than one banking institution, which is generally a National or State bank. Such banks, realizing the need of savings facilities for their communities, in many instances properly organize "savings" or "interest" departments. Many States have excellent savings bank laws, but the legal enactments of California, New York and Massachusetts are generally accepted as especially progressive and efficient.

The savings bank does not encroach upon the rightful domain of either the trust company or the bank of discount and has a usefulness all its own. Its fundamental purpose is to garner as into a vast storehouse the savings of the masses and in so doing the savings bank not only benefits those whose money it safely keeps, but also enriches the nation. A savings bank has been well defined as "a corporation organized for the purpose of receiving on deposit and for safe-keeping such sums, usually small, as shall be offered, aggregating them and investing them for the benefit of the depositors as a whole, repaying such deposits on demand or on legal notice, with such interest as the profits of the corporation will warrant."

In the case of stock savings banks, the shareholders also share the earnings, but in the mutual, all profits belong to and are held for the depositors. The avowed object of the savings bank is to teach habits of thrift and economy by encouraging small savings with security well nigh absolute. Safety is the paramount consideration, and the income secondary.

In so far as organization and administration are concerned, savings banks are divided into two classes—the mutual or trustee savings bank, and the stock savings bank. The stock savings bank, as its name implies, has capital stock, upon which dividends are paid, and the ownership and management are naturally vested in the stockholders. It is organized for profit and has in it the "commercial motive" which prompts men to risk their money. It is largely found in the South and West, where the mutual savings bank never seems to have gained a foothold. The element of profit from enhanced value of the shares and the immediate prospect of return in a financial way in the form of dividends make it especially adaptable to those communities where the purely philanthropic effort would not be wise. There are many most excellent stock savings banks, fulfilling their purpose most admirably, and to say that the mutual is superior to the stock is to state an opinion and not a fact.

The well-managed mutual savings bank stands very high in the esteem of the public and its patrons, and well it may, for it is in many instances operated on as high a standard of ethics as any concern could be. And being of a philanthropic order it naturally appeals to the best men in the community, who are selected because of their financial and moral worth, and who are "chosen" rather than being per-

mitted to choose. The management being self-perpetuating and there being no stock, the holding of which carries voting power, the administration is usually clean and above suspicion, for no man can "buy" his way in. We may find several such institutions nearly a century old, with deposits running from seventy-five to one hundred millions. In New York City alone, there are at least seven banks with deposits of fifty millions and over and two with over one hundred millions. In several States there is no provision for stock savings banks, and in others no adequate laws for the establishment of the mutual type, but gradually the excellent laws of New York and Massachusetts are being used as a model for the enactment of similar laws throughout the country. In many States the law permits the organization of both mutual and stock savings banks, but in such States generally the savings banks are stock corporations.

Trust Companies

The first company to do a trust business was the Farmers' Fire Insurance and Loan Company, which was organized and commenced business in New York City in 1822. It was authorized to do a fire insurance business, grant annuities and execute certain kinds of trusts. Later its name was changed to the Farmers' Loan and Trust Company, and it ceased to do an insurance business. In 1830 the New York Life Insurance and Trust Company was chartered to write life insurance and execute trusts. In 1836 the Pennsylvania Company for Insurance on Lives and Granting Annuities, located in Philadelphia, and doing at that time an insurance and annuity business, was authorized to execute trusts. During the same year a charter was granted the Girard Life Insurance Annuity and Trust Company, of Philadelphia, the title later being changed to the Girard Trust Company. These four companies had the field to themselves until 1853, but from then on there was a gradual increase in the number of trust companies up to the early '80s, when the growth became quite marked. During the last few years, however, there has been a remarkable growth in the movement, the number more than doubling. Some National banks have changed their corporate form to that of trust companies, and many private banking houses have secured trust company charters.

Trust companies are not organized under uniform charters, but instead receive their authority from the several States, in some States organizing under general incorporation laws, and in others securing charters by special legislative acts. The granting of special charters, however, is subject to criticism on the ground that it opens the way to securing privileges inconsistent with safe and conservative operation. But it also has certain advantages, the principal one being that it secures privileges that will meet the conditions peculiar to the community in which the company is to locate, thus providing better service than if it were obliged to organize under the same form of charter as an institution in some other section of the country, where the needs are entirely different. Trust company charters generally carry the right of perpetual or, at least, long duration. This is really a necessity, because the nature of the duties calls for an existence that shall not be subject to termination at any stated time. Were they limited to a short term of years, as

the National banks are, it would be impossible for them to undertake the administration of trusts that will exist for an indefinite period or perpetually, or to be named as trustee in mortgages to secure bonds which will not mature for a long term of years. The capitalization of trust companies is generally regulated by law, being based on the population of the place in which the institution is to locate, and varies from \$25,000 in the smaller towns, to \$500,000 or more in the large cities. Nowadays, in organizing a trust company, it is customary to have the stock subscribed for at a premium, in order to provide a surplus to start with. This is desirable because of the added strength, the combined capital and surplus being held in lieu of furnishing a bond for the faithful performance of duties in connection with the execution of trusts.

The management is delegated by the stockholders to a board of directors (sometimes called a board of trustees), which outlines the general policy of the institution, and is held responsible for its welfare. The directors should be men of the highest type of responsibility and integrity, who are well known in the community, and whose judgment will not be questioned. People who are selecting a successor to take charge of their affairs after their death will consider very carefully before making a choice, and the standing of a fiduciary institution is subject to very keen scrutiny on the part of the public. The stockholders can also influence a great deal of business if they are of the right type, and the success of the institution will be greatly increased if backed by the solid people of the community. The directors in turn elect officers, who are responsible for the handling of the details of the business. The officers are generally a president, vice-president, secretary, treasurer, and oftentimes one or more assistant secretaries and assistant treasurers. In some of the large companies there are sometimes a number of other officers, known as trust officer, attorney, auditor, and managers of real estate, safe deposit, and bond departments. There is generally an executive committee, composed of three or more directors, which acts as an intermediate authority between the directors and officers. This committee is composed of men so located as to be accessible at short notice for a conference, so that the officers, by calling them together, may receive authorization to act in matters of special importance wherein it is necessary to have the sanction of higher authority. This committee generally meets at stated times as well as for special conferences. Complete records of its proceedings are kept, and read to the board of directors at its meetings.

In National banks and institutions doing a general banking business, the duties of the officers generally run within well-defined lines that have to do principally with securing depositors and granting credit. But in trust companies it is entirely different. With no two of them doing exactly the same class of business, and with the diversity of matters which they handle, the duties of each officer cover a much wider range, and the work allotted to the various officials varies greatly in different institutions. In any event they must be men of broad views, and, for certain positions, of special training. The investing officers, in addition to being able judges of credit, must be well posted in other fields of investment. In addition to discounting paper they will

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purchase stocks and bonds, and loan on real estate and collateral security, the values of which they must be well acquainted with. The president is the recognized head of the institution, and is responsible to the stockholders, through the directors, for the conduct of its affairs. He is responsible for the satisfactory investment of the company's funds, and the trust funds placed in its keeping. Under his direction and guidance, the other officers, through their various departments, carry out the general policy of the company. The vice-president of a company located in a small town is usually an honorary official, but in large institutions he is in charge of some important department, and in case of the absence or disability of the president, assumes that official's duties. The secretary keeps the records of the board meetings, handles a part of the correspondence, and assumes other lines of work connected with the trust department. In an institution having no trust officer, he is generally of legal training, as his department is in charge of the settlement of estates, drawing of wills, furnishing legal advice to those who wish to avail themselves of the trust features, and matters connected with trust deeds, mortgages, etc. The treasurer usually confines his attention to the banking department, coming in contact with the depositors, and being held responsible for the workings of that end of the business. In the case of officers other than those just mentioned, their duties are generally in connection with special departments, the title signifying their particular line of work. The personality of the officers has a direct bearing. Dealing with persons who have suffered bereavement, they must be sympathetic, and in managing the affairs of people who, because of ignorance of business methods, have engaged the company to act for them, they must be patient, courteous and tactful. The attitude which they show to their clients, and to the public, will have its effect upon the success or failure of the institution.

While there are generally several departments in a representative trust company, the business really comes under but two headings, the banking department and the trust department, all other departments being virtually but branches, subservient to them. The affairs of these two departments are kept entirely separate, each one having its own clerical force and accounting systems. In fact the division should be such that either department could continue its own business as a separate institution, were the other to go out of existence. The trust department is related to the banking department as a regular depositor. Income from the trust funds, in the form of dividends, interest, rentals, etc., is constantly coming in, while principal payments are made from time to time, and these are deposited with the banking department when received. Against such deposits the trust department issues its own form of check, signed by the secretary or trust officer, for all disbursements connected with its routine business.

The banking department follows very closely along the lines of the National banks. The general makeup is the same, and the class of business is practically identical. Owing to the wider range allowed in the investment of funds, trust companies frequently make a practice of paying interest on a greater proportion of their deposits than the National banks, and consequently attract idle funds that

are being placed in bank awaiting investment or otherwise. Some companies go so far as to pay interest on all checking accounts averaging above a stated amount. Savings departments are frequently operated, especially in sections of the country where mutual savings banks do not exist, this oftentimes being a very profitable branch of the business. The investments are such as are best suited to the different classes of funds held. Demand deposits subject to check are generally invested in the usual way, viz.: in notes and receivables of depositors, commercial paper and collateral loans, while the time deposits are usually invested in stocks, bonds, and loans on collateral and real estate. A line of high-grade bonds is desirable, as there are frequently funds in the trust department awaiting investment, and when the proper securities are not obtainable in the market at satisfactory prices or rates, bonds can then be transferred from the investment account of the banking department to the trust funds.

In practically all States trust companies are under the supervision of a bank commissioner or superintendent, who makes periodical examinations, and calls for statements of condition in much the same way as the Comptroller of the Currency supervises the National banks. Examinations are generally made twice a year, the examining official, or his deputy, with the necessary assistants verifying the books of the banking department, counting the cash and checking over the investments and loans. The trust department is examined to a certain extent, but not as thoroughly as the banking department, as in a company doing a large trust business, it would take a much longer time than the supervising department is allotted for examining such an institution. The trust department is supervised in a way, however, through the accounts that must be rendered to the probate court from time to time, and in the statements sent to the beneficiaries with the income payments. In some companies the investments held in the trust funds are checked over by certified accountants or auditing committees periodically, and in such cases, between the verification by audit, the probate reports, and the statement furnished the beneficiaries, it would hardly be possible for a serious defalcation to occur. The calls for statements of condition are in most States made, at least, quarterly, and some State bank supervisors demand five each year, making the calls at the same time the National banks receive theirs. The reports must be signed and sworn to by an officer, or officers, before a notary public, and published in a local newspaper. The form of balance sheet used follows more or less the one required of the National banks. A detailed statement of investments, with information regarding past due paper, loans to directors, etc., is also made, being returned with the balance sheet to the supervising authority. The reserve which trust companies are required to carry is, in most States, practically the same as the National bank requirement outside of the reserve cities, 15% being the usual percentage. The proportion of cash in vaults to funds deposited with reserve agents varies slightly in different States.

TRUST FUNCTIONS.—The trust department covers a wide field of activities, as was shown in the list of fiduciary capacities heretofore mentioned and the officer in charge, whether a Vice-President, Secretary or Trust Officer, should

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have had a wide business training and a general knowledge of legal terms, and to a certain extent a legal training, though it is not essential that he should have been a practising lawyer, since the legal papers required in handling the fiduciary business of his department are in most cases prepared by or referred to the counsel or attorney of the company.

When a trust company is named to act as executor, trustee, etc., in a will, it is customary to make no charge for the safe keeping of the document, and upon request many companies will have their counsel consult with the testator (maker) or with his or her counsel, without charge, to assist in drawing the will and to see that it is in proper legal form. One of the advantages of having a will so prepared and filed with a trust company is that it will be brought forward at the proper time, there being no opportunity that it will get into improper hands in the meantime. Such a will is sure to have been properly executed, the fact that it had been approved by the trust company's counsel being good evidence that the maker was of legal age and sound mind at the time of signing and that its provisions are as direct and explicit as is possible, since otherwise the trust company would not have consented to accept appointment under it. Where a will is filed with a trust company a receipt is given to the maker so that he may file it with his papers.

"Executor."—An executor is the person named in a will by the testator, to carry out, after the death of the testator, the directions for the disposal of his property as set forth by the terms of the will.

"Administrator."—When a person dies intestate, that is, without leaving a will, his property must be disposed of in accordance with the law, and to do this the probate court appoints some one to act. The one thus appointed is called administrator. Should the administrator die or resign the office before the estate is settled, the court appoints an administrator de bonis non, that is, administrator of the goods not yet administered.

Should the one named as executor in the will decline to act, the court appoints some one to carry out the directions of the will. This person is called administrator cum testamento annexo, that is, administrator with the will annexed. Should an executor resign his office or die before the estate is settled, the court appoints an administrator de bonis non cum testamento annexo, that is, administrator with the will annexed of the goods not yet administered.

The duties of executor and administrator are to all purposes the same, viz., to settle the affairs of the deceased and distribute the property among the rightful heirs. Practically the only difference being that the executor has his course outlined in the terms of the will, while in the case of the administrator, there being no written instructions to carry out, he settles the affairs and makes a division of the property in accordance with the laws governing such matters.

The usual procedure is, the qualification before the court, advertising for claims, making and filing an inventory of the assets, setting apart the widow's allowance (for she may need it to supply the necessities of life), passing upon the claims, selling property if it is necessary in order to provide money with which to pay the claims, payment of the claims, final accounting to the court, and the distribution of the estate to the heirs.

An administrator must get permission from the court before selling real estate, but the executor and the administrator with the will annexed may sell without such permission should the terms of the will give that privilege.

"Trustee."—The testator, instead of directing that the property be given outright to the heirs, may leave it in the form of a trust. That is, he may set aside certain sums or property, to be held for the benefit of the person or persons named, to whom the income only shall be paid, or to whom the distribution of principal shall not be made until some specified future date, or until certain events shall have come to pass. In such a case some one is named in the will as trustee, and this persons takes charge of the estate after the executor has completed his duties. The trustee's duties are, to care for the property, invest and reinvest the principal, collect the income and pay it over to the person or persons as directed in the will. The trustee is under the authority of the probate court, and must file at stated intervals, a statement of assets and transactions.

"Guardian."—A guardian is the one appointed to assume control over the person, or the estate, or both, of a minor. The guardian of the person of a minor has control over the habits, training, education and maintenance of his ward. The guardian of the estate of a minor has charge of the property, collects the income and makes the expenditures for the support and education of his ward. The position of the guardian is of little less importance to the child than that of a parent, as he is largely responsible for the building of his ward's character, upon which much depends as to whether he becomes a good and useful citizen.

"Conservator."—A conservator (or committee) is the one appointed by the court to assume control over the person, or the estate, or both, of an insane person, a spendthrift, an intemperate person, or one who is mentally incompetent. The duties are much the same as those of a guardian, except that he has charge of an adult instead of a minor.

"Agent for Individuals."—Acting as agent for individuals opens a wider field of duties than any other capacity in which a trust company may act. As executor, administrator, etc., where the appointment comes from the court, the duties ordinarily run along well-defined lines, as estates must be administered in accordance with the laws governing them. But in acting for an individual, the things which a company will be called upon to do are practically unlimited.

This feature of the business appeals particularly to professional people, to those who are not familiar with business methods, to those in ill health who cannot attend properly to their own affairs, to those who spend considerable time traveling, and to those who do not care to be burdened with the details connected with the management of their financial affairs. In this capacity the company takes charge of whatever is intrusted to it, relieving the individuals of a part or all of their business affairs. It collects all forms of income, whether from investments or real estate, paying it over or holding it, as may be specified. It also reinvests principal, and attends to insurance, taxes and repairs connected with real estate. While certain of these agency duties do not require a written agreement between the trust company and its client, it is better practice to have such an agreement in all cases. When it is necessary that the company sign papers

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conveying title to securities and property of any kind, a power of attorney must be executed by the individual conferring specific powers to the company to act in such matters. This is a branch of the business that is growing in popularity, because people are learning that the trust company, with its excellent facilities, can care for their financial affairs as satisfactorily as and oftentimes more so than the individuals themselves.

"Transfer Agent and Registrar."—The great increase in the capitalization of corporations, as well as in the number of them, has opened up a very profitable field for trust companies to act as transfer agent and registrar. In fact the stock exchanges in some cities make it compulsory that corporations appoint such agents before their securities can be listed with them and dealt in upon their floors. In this way those dealing in such securities are able to secure prompt deliveries of transfers, which otherwise would cause much inconvenience and loss of time were it necessary to send to the principal offices of corporations, which are to a great extent located at a considerable distance from the markets in which the securities are dealt in. The duties of transfer agent consist of keeping the stock books of corporations, passing upon the evidence in the change of title of the stock, and making such transfers as are in proper form, by the due recording of them and the issuing of new certificates to replace the ones cancelled. The same procedure is followed in the change of ownership of registered bonds, except that instead of cancelling the old bonds and issuing new ones, the original bonds are used, the names of new owners being noted in the spaces provided for such entries, after which they are returned to those presenting them for that purpose. The registrar's duty is to see that the stock and bond issues do not exceed the authorized limit. After a transfer has been made, the certificate is examined by the registrar to see that the necessary details in filling out have been compiled with, and that the new certificate is for the same number of shares as the one cancelled, thus guarding against an over issue. In the case of registered bonds, such records are kept as will guard against an over issue of the series, while with an issue of bonds payable to bearer, the proper precautions are taken at the time they are put out, due records being made. In transferring stock, and in registering bonds, the signature of one of the trust company officials appears in order to authenticate the transaction.

"Trustee Under Mortgage."—In these days of huge corporations, and the attendant issues of bonds, it is a right due the investing public that some responsible agent certify to the genuineness and regularity of such issues. It has accordingly become the practice for a corporation making an issue of bonds, to name a trust company as trustee in the mortgage securing the issue. Acting in this capacity, it certifies that the bonds are genuine, and issued in accordance with the terms of the mortgage. It does not guarantee as to the value or payment of the bonds, or of the interest, when due, but in case of the default of the corporation that made the issue, it would foreclose on the property, and protect the interests of the bondholders.

"Fiscal Agent."—As fiscal agent for governments, States, municipalities and corporations, the trust company undertakes to pay the principal of and interest on bonds or other

obligations, when due, to handle the sale of bond issues, negotiate loans, manage sinking funds, and perform special services of a financial character. It also, if desired, takes charge of paying the dividends on the stock of corporations, relieving them of all responsibility connected with making out and mailing checks to stockholders, when such dividends become payable. This is a profitable business, because, in addition to receiving the regular fees for acting in these capacities, the company has the use of the money deposited to meet the obligations. This money, frequently being left in its hands for a considerable period of time, can be loaned advantageously. This department also handles the details connected with the reorganization of corporations. When the plan of reorganization has been decided upon, notices outlining it are mailed to the holders of the securities, with the request that they deposit them with the trust company. When the company receives the securities, receipts are given, and when the reorganization has been perfected, distributes the new issues to the holders of such receipts. In the case of an assessment being made, the company receives the payments covering it, and if there are fractions connected with the new issues of stock or bonds, adjusts them.

"Guarantor of Real Estate Titles and Surety Bonds."—Some trust companies conduct departments for insuring owners and mortgagees of real estate against loss through defective titles, liens, and encumbrances. They also become surety for the faithful performance of contracts and obligations made by corporations, firms and individuals. This class of business, however, is not handled very extensively by trust companies, as it is considered too hazardous, and also because they are not in a position to compete favorably with the companies organized primarily to handle such lines.

"Assignee and Receiver."—As assignee the company takes charge of the affairs of insolvent business firms, realizing on the assets, and making the proper distribution among the creditors. As receiver it takes charge of the business of corporations which are in difficulty through financial embarrassment, or because of inharmonious relations between the stockholders and officers, due to unsatisfactory management. Receiving appointment in this capacity from the courts, it assumes control of the corporation, converting the assets into cash, paying off the creditors, and if anything remains, dividing it among the shareholders in proportion to their relative holdings of stock. The appointment of a receiver does not necessarily imply that the business must be liquidated. Instead, it frequently happens that the business is continued, under the management of the receiver instead of the officers, until such time as it is again on a paying basis, when the affairs are returned to the hands of the owners.

"Treasurer."—One capacity, the possibilities and profitableness of which trust company officials and the public do not yet fully realize and appreciate, is that of acting as treasurer of various forms of institutions such as churches and other religious organizations, colleges, schools, and charitable, benevolent and fraternal societies. In the case of churches, the collections and donations are turned over to the company, and payments made by it on orders drawn by the proper official of the church. All investments owned

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by the church society are held by the company, and the income therefrom collected. Acting for schools, the company receives the appropriations made by the municipality, paying out the funds on orders signed by the district chairman or committee. It receives payments and donations to charitable and benevolent societies, making payments as authorized, and in the case of fraternal orders, it receives the payments made by the members covering their dues, and pays out the funds on the proper authority. The company is particularly well adapted to act for colleges, as such institutions generally have endowments and funds that are invested in real estate and securities, and the various departments of a trust company, through the facilities offered, can relieve the college trustees and officials of all responsibilities in connection with the collection of income, care of real estate, reinvestment of principal, and payment of salaries and all other expenses. It is also a matter of economy for such an institution, as the trust company's charge for services will not amount to as large a sum as it would be obliged to pay a man competent to handle the responsibilities and details of such a position. This feature is a profitable one for the company, because it receives the fees for services, and has the benefit of the deposit accounts of those for whom it acts in this capacity, besides being the means of selling investment securities through its bond department. As an advertising feature it is also of benefit, as it brings the company in contact with a large number of people, some of whom will eventually become patrons of some of its departments.

"Safe Deposit Departments."—Most trust companies operate safe deposit departments, often on a very extensive scale, and sometimes to the extent of providing a cold storage system for the keeping of furs and fabrics. Small country institutions are generally content to provide moderate facilities, the boxes renting for from \$2 to \$10 per annum. But in the large cities will be found vaults superior in fire-proof and burglar-proof construction, where the size of the boxes ranges from the one that will hold only a few bonds or papers, to one the size of a small safe, and provided with a combination lock. Offering so many more facilities than the ordinary banking institution, the trust companies draw a wider variety of patronage, consequently more of the clients are likely to rent safe deposit boxes than would the patrons of a strictly commercial bank. This department is accordingly well patronized, and a source of profit to the companies. In addition to its earning power as outlined above, it is also of much value to the companies themselves, because, acting in so many capacities which give them the custody of securities, often to the value of hundreds of thousands of, and frequently millions of dollars, they are provided with a place where they will be absolutely safe from loss or destruction from outside elements.

"Investment Department."—The class of people having business with a trust company being so varied, information and advice regarding investments are constantly being sought. Consequently, many companies located in the large cities operate investment departments for the purpose of providing their clients with bonds, mortgages, etc., when they wish to purchase. This department has exceptional facilities for securing high-grade investments, as, being in a

position to purchase in large quantities, the companies frequently participate in the underwriting of issues of securities. In this way they have the advantage of securing, at favorable prices, investments which they can safely recommend to their patrons, and which can also be used in the investment of their own trust funds as occasion may offer. This department is also advantageous for the reason that frequently securities belonging to trust funds must be sold in order to provide cash for the beneficiaries, or for the purpose of making a distribution of an estate. Consequently it can take such securities, holding them until they are sold to clients, or for use in other trust funds that may have money for investment.

"Foreign Exchange Department."—A trust company conducting the usual number of departments is constantly being called upon to make the transactions necessary in the transfer of funds to and from foreign lands. A trust department handling any great amount of trust funds generally has beneficiaries who are traveling or residing abroad, and to whom income payments must be made frequently. In addition, letters of credit, travelers' checks, etc., are always in demand. It is accordingly a matter of convenience and profit for a trust company to have such foreign connections that it can issue its own foreign drafts, etc.

"Real Estate Department."—Large trust companies generally find it necessary to place the handling of real estate matters in a separate department. This is for the reason that many estates and trust funds usually have investments in real estate, which demand a great deal of attention through rent collections, repairs, insurance, taxes, etc. This department is in charge of a man who is well informed regarding the value of lands, properties and rentals, and who can give his entire attention to the necessary details in connection with all real estate matters placed in the care of the company.

TRUST FUNDS.—The investment of trust funds is confined to a limited class of securities, the idea being safety of principal and regularity and permanency of income. The laws regarding trust-fund investments are very strict in some States, limiting them to securities that are legal for savings banks. Such funds are generally invested in high-grade bonds, first mortgage loans on improved real estate, and preferred stocks that have paid dividends regularly for a term of years. Some companies go outside these limits, and in many cases can do so with safety, but it is, of course, upon their own responsibility, and, should loss occur, they would be obliged to make it good. This refers only to investments made after the trust comes into the hands of the company for administration. When estates or trusts are accepted by a company, they frequently contain a wide variety of securities, and the institution cannot be held responsible for any loss coming to the fund through the failure of such investments. Registered securities belonging to trust funds are always put into the name of the company as trustee, or in whatever capacity it may be acting. In this way, in the event of the failure of the company, they cannot be held as a part of the assets to pay the creditors.

In keeping the records of trust funds, each trust is treated as a separate depositor, a special form of ledger being used that shows each transaction in detail, and the

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actual amount of uninvested principal, or accumulated income on hand. Principal and income are separate items, and accordingly must be kept separately, which really involves two sets of accounts for each trust. All entries on the ledger must carry explicit explanations, as they form the basis of the reports submitted to the beneficiaries and the court, and it is essential that each item be clearly described. The statements to the beneficiaries are rendered at the time checks are sent for income due. Probate accounts are rendered to the court periodically, according to the requirements of the law. The ledger and cash book are the principal books used, but another one of importance to the trust department is the investment book. In it is kept a record of all stocks and bonds held in the trust funds. This book is of the loose-leaf style, each corporation whose stocks or bonds are held having a separate page or pages for each class of its securities. As several trusts frequently own securities of the same corporation, it is possible to readily ascertain from such a record who are the owners, extent of holdings, etc., when such information is desired. This record is very complete, giving the date and numbers of stock certificates, in whose name registered, number of shares, par value, names of transfer agent and registrar, date purchased, rate of dividend and date payable. In the case of bonds the book shows the class, number, name of owner (in whose name standing if registered), amount, date, maturity, registrar, rate of interest, dates when interest is payable, where payable, whether there is an option to call the bonds for payment before maturity, and if so when and at what rate.

In a company holding a large amount of trust funds, it is necessary to keep a close watch of dividends and maturing coupons. This is done by means of records showing dividend and coupon dates by months, and kept on cards. In the case of coupons, two lists are kept, each acting as a check on the accuracy of the other. One shows the coupons under the names of the corporations, each class of bonds having a separate card on which are shown the names of the trusts having holdings. From this list the coupon envelopes and deposit tickets are made. The other list shows the holdings by trusts, each trust having a card that shows the corporations whose coupons are maturing that month, and as the coupons are cut they are checked off on this list. The coupons are then turned over to the banking department, entered, and sent away for collection in the usual course. Each trust being treated as a separate depositor as far as bookkeeping is concerned, deposit tickets are made in advance, so that as dividend checks come in, or the coupons are reported paid, it is possible to get them entered on the books promptly. As the majority of dividends and coupons are payable on the first day of the month (the regular quarter month bringing a much greater number than any of the others), it greatly facilitates the work of crediting up such items by having everything possible in readiness beforehand.

"Filing of Securities."—The securities in each trust are kept by themselves, and in such a way that they can be produced immediately for reference or audit. As these papers are being referred to constantly, this greatly facilitates the work, especially in the matter of cutting coupons from bonds. Mortgage loans held in the trusts are not filed with the securities, instead being kept by the trust loan

department, as they have not the negotiable character of stocks and bonds, and because it is imperative that the loan clerk have easy access to them for the purpose of endorsing principal and interest payments as they are made.

"Income Payments."—In most cases the income due the beneficiaries under the trusts is paid by checks of the trust department mailed monthly or quarterly, as the case calls for. In some instances it is transferred to their checking accounts in the banking department, and in others paid in currency at the company's office. The income is sometimes asked for before the regular time of payment, and before the dividends, interest or rentals have been collected, and in such cases the discretion of the trust officer is used in regard to compliance. If those making the request give good reasons for drawing in advance, the payment is made, as the company is fully protected in the matter of temporary advances. These advance payments, together with those made for investments in anticipation of funds that are soon to be released, form the basis of the item, "Due from Trust Accounts," which frequently appears in the published statements. With the income payment is always sent a form of receipt which must be signed by the beneficiary and returned. These receipts are very carefully preserved, as are all other vouchers for payments of any kind, as they are frequently referred to for various reasons, and will be called for when the trust funds are audited.

TRUST COMPANY EARNINGS.—The fees of a trust company for services in fiduciary matters are as moderate as those of individuals acting in the same capacities, in fact they could not be otherwise, because the court has the power to regulate the compensation for administering trust funds, and would not allow excessive charges, while in the matter of corporate trusts, and in acting as agent for individuals, the competition of other companies would restrict any tendency to overcharge. As a matter of fact, the fees of a trust company invariably represent a saving, for the reason that an individual executor or trustee often has to furnish a surety bond, and also secure legal advice, both of which entail additional expense to the estate, which is largely eliminated when a trust company acts, because its entire capital and surplus are held in lieu of a bond, and it employs its own legal talent whose charges, when any, are usually much less than would be made by outside counsel. Besides this it would be impossible to secure from an individual executor or trustee such service as the trust company offers. The best of legal talent, the judgment of several officers trained in the handling of matters pertaining to fiduciary business, the benefit of the knowledge and advice of a competent board of directors in deciding upon the course of action, and in making investments, and a well-equipped clerical force to watch and care for the many details, all of which place the corporate trustee beyond comparison with the individual acting in the same capacities.

From the standpoint of profits and earning power the trust company possesses exceptional capacity. The strictly commercial bank makes its profits by loaning its capital, surplus and deposits, its income being practically limited on account of its dependency upon the deposit line and market rate. But the trust company, deriving income from each

one of its numerous departments, is dependent upon the market rate only so far as its banking department is concerned. The profits of its other departments are independent of market conditions. With the tremendous increase in the individual and corporate wealth of the country, the trust companies have kept pace with the growth. Our commercial system has developed the need of such agents, and they have taken advantage of the situation, constantly developing their scope by extending and increasing their facilities as opportunity offered, thereby widening their field of usefulness and adding to their resources. Acting in so many different capacities, the various departments develop business for each other. Some patrons of the banking department sooner or later take advantage of some other facility which the company offers. Some who rent safe deposit boxes eventually open checking accounts with the banking department. While some beneficiaries under trust estates, who, until becoming identified with the company in that capacity had no relations with it, become patrons of the banking department. In these ways they gradually become acquainted with the fact that they may be accommodated by the company along practically any lines they desire in connection with their financial affairs, and trust companies foster the idea that it is convenient and advantageous to do everything with one concern.

The people are giving increased patronage to the trust company because of the wide range of powers, and the fact that the financial condition of such an institution is well known. It is managed by men of high standing in the community, usually one or more of its officers having had a legal education. With its ample resources, and its thorough familiarity with the law and the duties of the administration of estates, it can proceed with promptness in all matters. These qualifications are frequently lacking in an individual. His financial condition is known only to himself, and is subject to sudden change. His private business may occupy so much of his time and thought that he cannot give proper attention to other duties, and his knowledge of law and his experience in handling money and making investments are often limited. The settlement of an estate requires much care and a knowledge of law, and an estate might suffer serious loss through the ignorance or carelessness of an individual executor or trustee.

Mercantile firms and corporations may carry their bank accounts with the company, although in some States trust companies are not permitted to discount paper. In the case of corporations, their corporate trust affairs may be cared for by the company. Individuals may find it convenient to transact their business there because the facilities offered will be of benefit in connection with their other financial matters. Loans may be had on mortgage security, a facility that National banks are not privileged to offer. Safe deposit privileges are at hand. Advice may be had in regard to investments, and securities may be purchased from the company. The trust department may act in a variety of ways, legal advice may be furnished and papers drawn, and when the company is named as executor, etc., the will may be left with it for safe keeping. In fact the clients may be accommodated in any matter concerning their banking and financial affairs from the time they begin to do business

with the institution until their death, after which the trust department can take charge of their estates if so specified.

The explanation of these capacities and departments will give an idea of the breadth of the field which the trust company commands, the service it may render the community, and the profitableness of the business when conducting the various branches of a representative fiduciary institution. Ever increasing its field of usefulness to the community, a trust company conducting such a business eventually finds itself acting in such a variety of matters and capacities that it would be next to impossible to go out of existence were it so desired.

Savings Banks

The origin of savings banks is in doubt. Claims for the honor of conceiving the idea have arisen as the years have gone by, among the first claimants being Daniel Defoe, the author of Robinson Crusoe. On account of the prevailing poverty and the distress caused thereby, numerous attempts were made to solve the problem in England and other countries, and friendly aid societies sprang up all over Europe, whose object was to enable the poor in times of plenty to lay aside a small sum to tide them over periods of distress. These contributions were supplemented by the gifts of charitably inclined people and returned to the contributors as needed. Annuities and sick benefits were also granted. These attempts to solve the problem were more or less futile, and lacked the underlying idea of the savings bank, i. e., the accumulation of principal by saving, which principal automatically increases itself by the earning power of money. These friendly aid societies frequently added a bonus to the members' contributions, sometimes having a Christmas celebration at the expense of the founders, and in one way or another endeavoring to help the masses out of their slough of despond. The Church was generally back of the movement, and the reason for this can easily be understood, since the burden of caring for the poor fell to a large extent upon the Church, and the clergy were very active in all these organizations.

The first practical man to attempt the solution was the Rev. Henry Duncan who founded his "parish bank" in Ruthwell, Scotland, and who placed the savings bank upon its rightful basis—a purely business proposition intended to afford a safe depository for small savings, repaying them upon demand with such interest as the earning power of the money would warrant. The movement spread throughout Great Britain, Dr. Duncan giving a great deal of his time and thought to the promulgation of the savings bank idea. In 1810, the Edinburgh Savings Bank was established, and is still in operation, and thus began the savings bank movement, which today in one form or another covers the world with its beneficent work. Like many of our institutions, the mutual savings bank, which was the first form of savings bank operated in this country, is an importation from England. The success of the early English banks, in spite of frauds and mismanagement, was of such an order as to commend the idea to public-spirited men everywhere, and during the year 1816, the idea crossed the Atlantic.

The first savings bank in the United States was the Philadelphia Saving Fund Society, which was organized as a private benevolent society in 1816, and began to receive

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deposits on December 2nd of that year. This Society was not incorporated by the Pennsylvania Legislature until February 25, 1819. In the meantime "the Provident Institution for Savings in the town of Boston, Massachusetts" was incorporated December 13, 1816, and the Savings Bank of Baltimore, Maryland, in December, 1818. However, history relates that the first meeting to consider the establishment of savings banks in New York State was held in the assembly room of the City Hotel, New York city, on Friday evening, November 29, 1816, although through hostile legislation no savings bank was incorporated in this State until March 26, 1819, upon which date the "Bank for Savings in the City of New York" was finally granted a charter. Hence it will be observed that New York was the first State to institute the movement, Pennsylvania the first to put it into practical operation, and Massachusetts the first to legislate in its favor. It is interesting to note that all of the aforementioned banks are still in existence, and have grown into great institutions, exerting an immeasurable influence for good in their respective communities.

SAVINGS BANK SUPERVISION.—The affairs of savings banks, as well as all fiduciary institutions subject to State control, are under the supervision of a State officer, termed Bank Commissioner, Superintendent of Banking, Bank Examiner, Auditor, etc., who has full power over these institutions, subject, of course, to the laws of the Commonwealth. He has first of all, jurisdiction in the matter of the issuance of a charter, being generally given discretion in the matter and, in order to obtain such consent, he must be convinced that the motives are good, the chances for success favorable and the organizers such as to command the respect and confidence of the community. Reports are required semi-annually in some States, and annually in others. The California Law, which is probably the best under which stock savings banks operate, provides that the Superintendent of Banks shall call for reports at least three times a year and that these reports shall cover capital, names of directors, reserve fund, liabilities, real estate, loans on real estate, bonds, loans on bonds, loans on other securities, money on hand and all other items not otherwise enumerated. Such reports must be accompanied by affidavits of officers of the bank who shall state that they have a personal knowledge of the matters contained therein.

The laws of Massachusetts and New York, which are regarded as the best under which mutual savings banks operate, and which as a matter of fact have been followed largely in the framing of many other State banking laws, provide that reports shall be rendered annually and semi-annually respectively, and consist of many schedules, inquiring into the minutest details of investments, which are specified, requiring cost, date of maturity, par value and estimated market value, and in New York also the investment value determined by process of amortization, together with all other information mentioned in the California law.

In every State where a supervision of banks is exercised, and it is a matter of regret that it is not exercised in every State of the Union, examinations of savings banks by the State department are required to be made within certain periods—in California and Massachusetts at least once a year, in New York at least once in two years, or at the discre-

tion of the Department in each State. These examinations in the States mentioned are most thorough, inquiring carefully into the conduct and management of every department, not merely verifying the assets and liabilities from the books, but in New York and Massachusetts an actual verification of mortgages and deposits is made, by communicating with the mortgagers and calling in pass books. The State examiners in these States are clothed with authority to administer oaths and compel the testimony of any officer or employee deemed necessary to the proper examination of any bank. In addition to State examinations, the directors or trustees are required to make examinations through committees—in California at least once a year, but not within three months of the next preceding examination; in Massachusetts at least once a year by certified public accountants, who must be approved by the Commissioner; and in New York every six months by a committee of trustees.

In every State where savings banks are authorized and subject to supervision, their organization is hedged about with special laws, all with the object of creating in this class of banks depositories of the greatest security for the money of people of slender means. This pertains whether the organization be stock or mutual, as for instance in the States heretofore mentioned, California requires that every savings bank must have actually paid in a capital stock of not less than \$25,000 if in a city of not over 5,000 inhabitants; \$50,000 in cities of not over 25,000 inhabitants; \$100,000 in cities of not over 100,000 inhabitants; \$200,000 in cities of not over 200,000 inhabitants, and \$300,000 in larger cities; or if organized without capital stock, a reserve fund of at least one million dollars, and the superintendent of banks shall refuse to issue a certificate until the amount required in either case shall have been paid in in cash. No director or officer may borrow directly or indirectly any of the funds of his bank nor may he act as endorser or surety for others. It is made a misdemeanor not only for any officer or director so doing, but also for any officer or director consenting thereto, and the office of such a one becomes vacant by such action. The Superintendent will not issue a certificate until satisfied that the character and general fitness of the stockholders are such as to command the confidence of the community.

In Massachusetts any twenty or more persons may associate themselves by an agreement in writing for the purpose of forming a savings bank. They then make application to the Board of Bank Incorporation, who require detailed information as to subscribers, proposed place of business, etc., and set a date and place for a public hearing, and require that a notice of organization be published at least once a week for three weeks. The subscribers then hold a first meeting, at which by-laws are adopted and officers and trustees elected. The president and a majority of trustees so elected then sign, in duplicate, articles setting forth a true copy of the agreement of association and date of first meeting, one of which is submitted to the Board of Bank Incorporation and one to the Commissioner of Corporations. If approved, the articles are filed with the Secretary of the Commonwealth upon payment of a fee of five dollars, and a certificate of incorporation issued.

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In New York the procedure is very similar except that thirteen or more persons, two-thirds of whom must be residents of the county, may become a savings bank by executing a certificate setting forth the particulars in duplicate, one of which is filed with the County Clerk and one with the Superintendent of Banks, who, if satisfied as to the standing of the signers and as to whether the density of population warrants another savings bank, issues a certificate of authorization, which is attached to the certificate previously filed, and the persons named in said certificates thereupon become a corporation, and must begin business within one year or forfeit their rights.

The management of savings banks is vested in their boards of directors or trustees according to whether they are stock or mutual institutions. These boards are charged with the responsibility of the affairs of the bank and the members thereof may be held individually liable for gross mismanagement or wittingly sanctioning any violation of the law. The law of each State in which banking acts have been adopted, stipulates who shall be directors or trustees, and besides being men enjoying the confidence of the community, they must fulfill certain other conditions. In California each director must own in his own right shares of his bank to the market value of at least \$500, or if a bank without capital stock, he must be both a member and depositor thereof. The board of directors of a bank in this State must meet at least once a month, and each director when elected must take an oath that he will diligently and honestly perform his duties and will not knowingly violate or permit to be violated any of the provisions of the law.

In Massachusetts the law provides that the board of trustees of any savings bank shall consist of not less than eleven members from whom shall be elected a president, one or more vice-presidents, and a board of investment of not less than three. Only one of the active officers of a bank may be a member of the board of investment. The trustees must be residents of the commonwealth, and may not hold office in two savings banks at the same time. A regular meeting of the board of trustees must be held at least once in three months, and a regular meeting of the board of investment at least once in each month. This board has power to approve all loans of the bank, changes in property, or security pledged, or rates of interest charged; all purchases or sales of bonds, stocks and notes, and in short is the executive body, making its reports to the trustees at their meetings. No officer or trustee of a savings bank shall directly or indirectly be an obligor for money borrowed from said bank, nor shall such corporation or any person acting in its behalf, take any consideration for or on account of any loan made by it.

In New York the law is much the same as in Massachusetts, except that the boards of trustees must consist of at least thirteen members and they must meet at least once a month. No board of investment is specified in this State, the entire management and control of all of a bank's affairs being vested in the board of trustees, who selects such officers and committees as it deems necessary for the execution of the details of management. The New York law also sets forth that no person shall be a trustee against whom a judgment for any sum of money shall have been or shall

hereafter be recovered or remain unsatisfied for a period of more than three months, or who takes the benefit of any law of bankruptcy or insolvency, or who makes a general assignment for benefit of creditors.

In Indiana a trustee of a savings bank must be a freeholder, owning at least \$5,000 worth of unencumbered real estate.

The laws of the three States quoted in these pages as representing the best under which stock and mutual savings banks operate, all provide for the establishment of a surplus or guarantee fund as a further protection to depositors. California directs that in banks having a capital stock, before the payment of any dividend, at least one-tenth part of the net profits of stockholders for the preceding half year must be carried to the surplus or reserve fund, until same shall amount to twenty-five per centum of its capital stock; and the directors of any bank having no capital stock must retain on each dividend day at least ten per centum of the net profits of the bank to constitute a reserve fund, to be invested in same manner as other funds of the bank and used toward paying any losses which may be sustained. There is no restriction upon size of surplus, though provision is made for the distribution of any amount greater than specified. Massachusetts provides for the establishment of a guarantee fund by directing that not less than one-eighth nor more than one-fourth of one per cent of the whole amount of deposits shall be set apart from the preceding six months net profits until such fund shall amount to five per cent of the total deposits. When the guarantee fund and undivided profits amount to ten and one-quarter per cent of the deposits an extra dividend must be declared. New York leaves the matter of surplus to the discretion of the trustees simply directing that they set aside for this purpose such amounts as they may deem expedient, limiting the amount of surplus, however, to fifteen per cent of the deposits, and providing for extra dividends when the surplus grows beyond that point. In both of the latter States interest is, except in a very few cases, directed to be paid semi-annually upon deposits of six and three months' standing.

Savings banks throughout the country are uniformly economical in their management, and even in the largest, the compensation to officers and employees is moderate when the vast amount of money and securities cared for is considered. The trustees of mutual banks, as a rule, receive no fees for attendance at meetings, but in New Jersey and Rhode Island they may receive under the law, not over three dollars, and trustees serving upon examining committees or as appraisers receive a moderate fee for such service in all States.

SAVINGS BANK ACCOUNTS.—As a general proposition savings banks handle three classes of accounts: First, the single name account, which stands in the name of one person and is payable to himself, his attorney or his legal representative after death. This form of account was extremely popular up to about twenty-five years ago, when the joint and trust accounts began to become well known and widely used by savings bank depositors everywhere; and these play such an important part in the management of a savings bank that they should be fully understood by both the bank and the depositor. Accounts of both classes are

frequently opened to avoid the making of a will and in other ways to avoid litigation and expense after death. The joint account usually represents money, the control of which is to be vested in either party, and the general rule of opening such accounts is to agree to pay either depositor upon presentation of the pass book and proper identification. In case of death, the money goes to the survivor without the expense of administration, and this is a most desirable form of account for those who can agree upon their money matters, particularly husband and wife. Some banks require both parties to sign an agreement to this effect, while others merely stamp the pass book "either to draw" or words to this effect.

Numerous cases have arisen over these accounts and they have been a frequent cause of litigation and trouble on account of adverse claimants. Both joint and trust accounts have been opened for the purpose of depositing more than the usual limit in a single bank in states where the amount is limited by law, and in other ways defeating the intent of the law and the purposes of the bank management; but if they are rightly used, they cannot fail to be a source of great satisfaction both to the bank and to the interested parties.

The trust account is intended to be used by those who would retain control of their money during life and yet at death have the funds applied as they may choose. The usual rule is to allow the trustee absolute control during life and at death to pay to the beneficiary, and in case of the death of the beneficiary, the fund reverts to the trustee.

For a number of years the courts of New York held that if A deposited money in trust for B, it became an absolute trust, and therefore A's right to the fund ceased, and he held it thereafter for the use and benefit of B, and cases are on record where A, having made such a deposit and withdrawn the funds, B or his executors have recovered of the estate of A, upon the ground that an absolute trust was created which could not be revoked. This was so obviously at variance with the wishes of the interested parties that the court reversed itself in the now famous Totten case, and the rule in this case well typifies the conditions under which the ordinary trust account is handled in New York State today, and doubtless will be in all States where this class of accounts becomes numerous, inasmuch as it is in keeping with the tendency of the times to dispose of one's estate by other means than a will:

"A deposit by one person of his own money in his own name as trustee for another, standing alone, does not establish an irrevocable trust during the lifetime of the depositor. It is a tentative trust merely, revocable at will, until the depositor dies or completes the gift in his lifetime by some unequivocal act or declaration, such as delivery of the pass book or notice to the beneficiary. In case the depositor dies before the beneficiary without revocation, or some decisive act or declaration of disaffirmance, the presumption arises that an absolute trust was created as to the balance on hand at the death of the depositor."

Upon opening an account with a savings bank, the depositor is asked to sign his name to the signature book or card, as the case may be, giving at the same time, his pedigree. This may be elaborate or simple, as the bank may elect, but usually consists of the residence, occupation, date

of birth, father's and mother's name, and sometimes the names of brothers and sisters. Some banks even go so far as to take the color of hair and eyes, facial characteristics, etc. Where the depositor cannot write, one plan is to take some distinguishing mark or scar as a means of identification.

These test questions may seem needless and savor of "red tape," but they often prove a protection to both the bank and the depositor. In spite of all these details as a method of identification, banks have been swindled by clever rogues, who, having become acquainted with the history of the depositor, and having obtained possession of the book, have been able to successfully imitate the signature and answer the test questions. Unlike the bank of discount, which is bound in law to know the signature of its depositor and pays forgeries at its peril, the savings bank is only required to use due care to ascertain the identity of the depositor. And the correct answer to the test questions, together with a signature that would pass inspection, has been held to be due care—provided there was nothing to excite the suspicion and inquiry of an ordinarily careful and competent bank official.

However, a method of absolute identification has been found which may change the attitude of the courts in this regard and give added significance to the term "due care." This method is by means of finger prints.

The fallibility of signatures and hand-writing experts has become more and more apparent as the criminal calendars of our Courts have become crowded with cases of forgery, of one kind or another, and especially have savings banks been involved in wrongful payments to illiterates and foreigners, though many so-called safeguards have been employed to prevent them.

It would seem that at last, out of the East, has come a solution of the problem, and a method of absolute identification finally evolved to meet American conditions, whereby future mistakes may be avoided. This identification is accomplished by means of finger prints, not thumb prints, mind you, taken when the contract is entered into, and required when each payment is made thereon.

In India the British Government officials have come to rely so much upon a similar method, that in dealing with criminals they have entirely abandoned the use of the Bertillon system of measurements, and many a man's thumb print has resulted in his conviction and loss of life. India is referred to because probably in no other country are business men called upon to deal with a more numerous, crafty people than its natives. Singularly alike of features, stature, and color of hair, eyes, etc., as these natives are, without an absolute means of identification the business man and government official alike would be continually involved. Thus, in making payments in Government offices as well as on plantations, the swarthy sons of India must give their thumb print, and if it agrees not with the record previously taken, they are at once prosecuted and forthwith convicted upon this evidence, which under the British law is relevant.

Now it would seem as though the conditions pertaining in India and those in our savings banks are more or less analogous. We deal almost entirely with strangers, and where a large proportion of our depositors are illiterates,

foreigners or negroes, no argument is necessary to impress the extra hazard entailed.

Authorities upon the subject tell us that the design made by the delicate lines upon one's finger tips never changes from the cradle to the grave, and that there are no two alike. In fact, Francis Galton, the father of the Finger Print System, after exhaustive study, gives it as his opinion that the chances of duplicates are not one in sixty-four billions. Thus it would seem that here is a medium which if reduced to a practical application, would furnish us an infallible safeguard. To apply this practically, the clerks of the bank must first be able to take good finger prints, and secondly, be able to read them quickly and without error, as they would a plain unquestioned signature; and apparently it can be done, for many banks are doing it and are enthusiastic about the results.

This system consists in taking at least three finger prints upon the face or reverse side of the signature card as desired, in addition to the usual data, using a specially prepared ink which is easily removed. Sometimes the bank will take a duplicate of the finger prints for special reference at the paying teller's window. Bearing in mind the facts stated above, it is readily seen that the taking of three finger prints instead of one thumb print, presents a greater field for comparison, which is incomparably easier.

Some banks use the finger print system for identification of illiterate depositors only; others use it in all cases and report that they meet with no objection from the depositors, and that the whole operation is a matter of but a few seconds; further, that their men soon learn to read and compare finger prints as easily as they compare signatures.

At first sight it would seem that in signing the signature card, the depositor simply recorded his signature for future comparison. This is true in the bank of discount, but in the savings bank this act in law signifies assent to and agreement to be bound by the by-laws, copy of which is quite generally found in the pass book, and the part affecting the depositors is in many States required to be hung in the lobby of the bank. When the depositor walks out with his book, he takes with him a contract, by which the bank has agreed to do certain things, and he likewise, has agreed to do certain things, to which both will be strictly held if the contract comes into court. This is not commonly known, otherwise depositors would be more careful to look into the terms and conditions under which they have left their money.

The pass book of a bank of discount is memorandum receipt merely, and is not intended to show the true state of the depositor's account until left for balance; but the savings bank book has been held repeatedly to be in the nature of a voucher or evidence of the amount due, and is intended to show the correct balance at all times, aside from the accrued interest that may not have been entered, as in many States no payments are made without the book.

If, in this contract, the bank agrees to use its "best efforts to prevent fraud" as many banks have done to their sorrow, the law will inquire if it has really used its "best efforts." If, however, it agrees to pay anyone who presents the book, the law will require only that it use due care to prevent fraud upon the depositor. What is due care will depend upon the circumstances attending the particular

transaction; but by-law or no by-law, it will not be permitted to pay "hit or miss" to anyone who may hand in the book.

If the depositor does not wish to be bound by the by-laws as he finds them in his book, let him return the book and get his money. If he retains the book he will be held by implication. The fact that he cannot read, or the language is one he does not understand, will not be considered valid excuses in law, and if his deposits and drafts are continued over a considerable period of time, these transactions in themselves will be considered as an agreement to the conditions under which they were made.

The balance pass book, which is now coming to be quite universally used, shows the new balance at every transaction, and is a great convenience both to the bank and to depositors. Presentation of the book is generally required at every transaction for the simple and sufficient reason that the book represents the depositor's claim against the bank, and a book with an erroneous balance would prove a source of danger and possible loss in the hands of the unscrupulous. An order on a savings bank has, therefore, been held non-negotiable, since it requires the presentation of the book as a condition of payment. But such books are everywhere taken as collateral security, and are looked upon with favor as such, since they are really a cash security.

In the case of loss or theft of pass book, notice should be given the bank without delay, so that a "stop order" may be filed against it and payment to the wrong person prevented. Numerous cases have arisen through payments on stolen books, and in the absence of notice the bank has been protected if reasonable care was used.

SAVINGS BANK BOOKKEEPING.—The mutual savings bank accepts on deposit nothing but cash or its equivalent. It makes no collections. It discounts no paper. It does not buy and sell exchange. It makes no clearings and pays no checks except over its own counters, although checks are generally taken on deposit. Its mail is not heavy and bad checks and protested items are practically unknown. The bookkeeping system is therefore not complicated, and its books should be and usually are kept in perfect balance, no matter how large the bank.

The principal books are: (A) The deposit ledgers. These are bound books holding as high as 5,000 accounts, from four to eight to a page and numbered consecutively. The card system and loose leaf ledger are gradually supplanting the bound book, and are coming into universal favor. Experience tells us that about sixty per cent. of the accounts opened do not remain long enough to fill up the space allotted to them, and in consequence, on the bound ledger, a large number of dead accounts soon accumulate, making the finding of the live accounts a slow and unsatisfactory process. By eliminating these dead accounts the work is very much simplified and shortened, especially in taking trial balances and at the daily postings. The card system and the loose leaf ledger, therefore, come into play as important factors in eliminating this waste of time and space. A large steel desk, with drawers holding the cards, over which slides a movable shelf, is usually installed, and this makes the work of posting both easy and rapid. (B) The deposit and draft journals. To these are posted in de-

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tail all transactions with depositors by name, number of account and amount. (C) The regular journal or cash book, sometimes combined with the depositors' cash book. To this are posted all such items as income from mortgages and bonds, deposits and checks on other banks, expense items, mortgage loans, bond purchases, etc. The transactions with depositors are sometimes carried in bulk to the journal. (D) The general ledger, which contains the controlling accounts of the bank, and to which all the other work gravitates, either in bulk or in detail, and which shows at all times the condition of the bank. The totals of the debit and credit sides of this book must agree at any particular time. From the general ledger is made up the daily, weekly or monthly statement on (E) The statement book. (F) The mortgage loan ledger. This shows in detail every loan made on bond and mortgage, with the interest account. This will be more fully explained under investments. (G) The bond register, which contains account of all bonds purchased and the interest account with each. This, too, is explained in full under investments. To these may be added other books, such as the minute book of the board meetings, statistical book, recording the number of drafts and deposits, the number of accounts opened, and closed, interest paid to depositors from the opening of the bank, etc., the fire insurance expiration record, by which the expirations of all policies accompanying mortgage loans are carefully kept track of and new policies secured before the old ones lapse, and last, but not least, a correct index of every name on the bank's deposit list. The card system is coming into general use for this purpose, since the closed accounts can be segregated and only the live ones handled. All savings banks keep their accounts by number, and usually a number is used but once. Thus the Bowery Savings Bank of New York has issued over a million books, of which about 150,000 now remain open. It frequently becomes necessary to find a depositor's number, and by dividing and subdividing the names it becomes possible to find any name in a very short time. The card index of depositors is one of the most important of records.

SAVINGS BANK DEPOSITS.—After receiving his pass book, the depositor in making future deposits presents his book and money at the receiving teller's window. Most banks make their own tickets, inasmuch as the class of savings bank depositors is of such character that this would not be done correctly, although large banks are now trying to educate their depositors up to this point, which is an added protection in case of dispute. After verifying the amount named by the depositor, the teller makes out his ticket and enters the same on the pass book. Some banks pass the transaction through two or three hands before handing the book back, in order that the entry may be verified, and also to prevent manipulation of the books—a most fruitful field for the dishonest. In one large bank in New York no entries are ever made on the book by hand, all being made by a special adding machine, the totals being added in the machine and at the same time on the pass book and on a strip of paper which forms the basis of the cash proof. A very excellent check on the pass book extensions is to list the balance as it appears on the pass book after the entry has been made, on the draft or deposit ticket, which is compared with the ledger balance when the item is posted.

In some banks books are compared at every transaction, and others make the posting on the ledger while the depositor waits, but all banks endeavor to keep the accrued interest written up, although in some of the large banks the book must be left for this purpose.

After the entry is properly made on the book, the real work of the bank has just begun. Right here comes in one of the most important features of savings bank accounting. In the multitude of accounts and the thousands of transactions yearly, it is absolutely necessary that mistakes do not occur in posting, and that the balance shall be extended correctly on the ledger. In order to expedite the work and simplify matters, practically all banks "group" their accounts. A group may consist of the accounts on one ledger; or, if the card or loose leaf system is used, a certain number of accounts, as for instance those running from 3,001 to 5,000. Accurate account is kept of every addition to this group and of every draft made against the accounts included therein, and the exact amount due on these accounts may be known at any time. In taking trial balances it is much easier to prove ten groups of three thousand accounts each than it would be one group of thirty thousand. And if error has occurred in posting or extending, it may the more easily be located.

This grouping is sometimes done on the journal-cash, which has a column for each ledger or group. In some banks it is done on separate sheets, or by adding machine, and the amounts carried to the journal in bulk. The advantages of these "distribution sheets" are so many and the accuracy with which they perform their work is of such high order, that their use is becoming quite common. A brief description of the process is herewith given: After the teller has made out his ticket, and listed the amount on his "teller's cash" for proving his money at night, the ticket is taken to the "distribution clerk," who finds the proper sheet (each sheet represents a ledger or group) and enters the number, name (sometimes only the initials or part of the name) and, skipping a column, extends the amount on the farther side of a perforation. After cash has balanced this perforated part is torn off and goes to the head bookkeeper, or other officer.

The drafts and deposits are posted from the tickets direct to the ledgers, and to prove the work, both as to the correctness of the posting and the extension of the balances, the proving clerk takes the distribution sheet and turns to the number, verifies the names and puts down whatever he finds posted under the current date. At the same time he enters in the "old balance" and "new balance" columns respectively, the balance as it was and now is.

When all the blank spaces on his sheet are filled in, he adds the amount of the deposits to the sum of the old balances (subtracting in case of withdrawals), which must equal the total of the new balances—provided the work has been done correctly. If error has crept in, a comparison of the detached coupon with the main sheet will quickly locate the mistake. Thus the item has gone from the teller to the distribution sheet; from the ticket to the ledger; from the ledger back to the sheet, and error is almost impossible. One large New York bank simply posts the new balance as it will be when the transaction is entered, leaving the amount vacant and the proving clerk puts in the amount

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that would be required to make the new balance and checks it against the figures shown by the sheet. This is called the coupon or "blind" system of posting, and not only prevents mispostings, but also wrongful grouping, and only gross carelessness can defeat its most excellent work. The savings bank has no use for the man who is grossly careless, since a blunder if not detected at the time of proving may necessitate going over six months' work—a task of no mean dimensions. Other items, such as interest received, expenses, bond purchases, mortgage loans, etc., are posted by the head bookkeeper from the journal and checked back. Weekly and monthly trial balances prove this portion of the bookkeeper's work.

SAVINGS BANK WITHDRAWALS.—Payments of money are made in a manner similar to the deposits. The withdrawal receipt is also made out by the teller and handed to the depositor for signature. While he is signing, the book should be compared with the ledger account, and if any interest is due the amount is entered in red ink. If the depositor is personally known, no further identification is required. But inasmuch as the majority are not familiar faces, the signature goes to the test clerk for comparison with the files. The test questions are asked and if the transaction appears regular, the money is paid. The accounts of deceased persons, lost books, funds of societies, lodges, etc., joint and trust accounts, require more careful attention and are usually referred to the proper official. Cash is usually used in making payments, but drafts are issued upon request, and for payments through the mails.

When the funds are all drawn the book must be left at the bank, where it is carefully filed for future use, and rarely if ever destroyed. Cases are on record where suit has been brought twenty years after closing an account and the old book has played an important part in tracing the history of the account and the terms under which it was opened. Deposit tickets and drafts are filed either by days and months, or under account numbers. The latter has an advantage in that it is possible to replace any account from the deposit slips and draft tickets from the files. This is an excellent scheme where the card system, with its possibility of lost cards, is in use.

Trial balances of the deposit accounts are usually taken at six months' intervals, and must be correct. Some banks take monthly or quarterly proofs, but with a good system of daily proof such as outlined above, a half-yearly proof is sufficient. In well managed banks it is no unusual thing to have seventy-five per cent. of the ledgers or groups balance at first proof, and the whole work is finished in two or three days. The adding machine has greatly expedited this work, and has proven a blessing to the savings bank fraternity.

No two features of savings bank administration are accompanied with more petty details, and sometimes annoyance, than lost books and the accounts of deceased persons. In the course of a year many books are lost or stolen or mislaid, and it devolves upon the bank to take proper precautions against making payment thereon, and also to issue a new book or make payment if such is called for. The universal rule is to require prompt notice of the loss or theft of a book and to stop payment until the matter is adjusted. When a new book is to be issued, one of three things (often

a combination of two of them) is generally required: (1) Advertise the loss of the book for a certain length of time, calling upon any person having a claim to the book to present the same before a time stated, at which time the book will be declared extinguished. This is to prevent books being assigned and reported lost and opening the door to frauds. (2) File an indemnity bond in an amount sufficient to protect the bank from loss in case the book turns up and a second payment is required. This is supported by sureties and is often difficult to obtain and is gradually being abandoned, and recently the courts have held that a bank has not the right to exact a bond in such cases. (3) Affidavit of loss, which, besides setting forth the fact of loss, shall state that at the time of said loss the book was not pledged as security for any loan. The average man will not perjure himself, and the savings bank deals as a rule with a class that can be trusted, and the common rule is now coming to be, advertise the loss and make affidavit, upon which a new book will be issued. This is exceedingly fair and is legalized in some States. Many of the books reported lost are merely mislaid and by requiring the depositor to wait a reasonable time and go to some trouble and a little expense, the book is generally found.

Payments on deceased persons' accounts are frequently called for, and constitute not a little part of the work of the junior officers. The rule in all cases is to pay to the legal representative; but like all rules it has its exceptions. Where an estate is left and a will is probated or letters of administration granted, it resolves itself into requiring duly authenticated letters testamentary or of administration, identification and sometimes death certificate. In New York and other States where an inheritance tax is in force, notice must be given the State Comptroller of such payments, so that the tax if any may be collected. But where the amount is small and no estate is left, the banks are coming to recognize the fact that they should be generous as well as just, and payment is frequently made to the nearest relative, and in cases where the amount is barely sufficient to bury the deceased, payment will be made to the undertaker upon the ground that the funeral expenses are a first claim and are a preferred debt. This rule is being adopted in many places and works exceedingly well.

DIVIDENDS AND THEIR COMPUTATION.—The largest task that confronts the savings bank is the periodical computation of interest. Interest must be earned before it can be paid, and the usual procedure is to make a careful estimate semi-annually of the earnings and expenses of the bank for the past six months, and with these figures before them, the trustees decide upon the rate to be paid. The experienced bank officer can tell with considerable certainty how much a dividend will figure. This may be done by going back several interest periods and by dividing the amount of interest paid by the total deposits at such periods, the actual paid rate will be obtained. Of course this will be a fraction less than the stated rate to depositors, as it is obvious that if interest had to be paid upon every dollar of deposits, a savings bank would not last long as a business proposition. The fact that most savings banks have rules providing that interest is payable from certain periods only, and that interest is forfeited upon certain withdrawals, to-

gether with certain dormant accounts, explains the above, and despite the most rigid limitations, enables the savings banks besides interest to depositors, to pay expenses, add to surplus and pay dividends to stockholders as the case may be, although the margin of profits is small, especially in mutual banks. Having determined the rate, as outlined, the amount of interest to be paid depositors is but the result of a simple computation and will be within a few hundred dollars of the actual amount, and accurate enough for an estimate.

The rules usually are that interest is payable semi-annually but begins quarterly, or from the first of each month. A very few banks pay for the full time on deposit, but this cuts down the margin of profit. Days of grace, as the first three business days in any month, or ten days at the beginning of any interest period are usually allowed. Before the interest can be computed, however, the time for which the various amounts have been on deposit must be ascertained. This is called "splitting" the account. This may be done on sheets ruled for the different periods, as for instance when interest begins on the first of each month, a column for 6, 5, 4, 3, 2, and 1 months. If the quarterly rule obtains, two columns only will be required. Where there have been few transactions this is not a difficult matter, but where the account is active, with frequent deposits and withdrawals it becomes more complicated. By practice this work does not become burdensome and the proper distribution is quickly made.

Some banks figure the interest directly on the ledger and list the same by adding machine afterwards; others figure it both on the ledger and on sheets, and check back to detect errors, passing the computations through two men. Each sheet must prove itself and large banks in New York prove the interest work to an eighth of a cent (on a three and one-half per cent. dividend). Where the rate is even, as four per cent., it is merely a matter of multiplying by 1 and 2 (2% for 6 months and 1% for three months); but where an odd rate such as $3\frac{1}{2}\%$ for monthly periods is in order, it is more tedious. A little experience qualifies a clerk to do this work with great rapidity, and after a little time, many amounts become memorized and can be set down at a glance. Tables are sometimes used, but should not be, until the clerk is thoroughly conversant with the theory of interest and can give a reason for what he is doing. Interest work is not as grinding as it may seem and makes a man keen and sharp. As a mental exercise it is excellent.

Many banks take off trial balance and figure interest at different periods in order to spread the work over a greater length of time and not be so crowded at interest periods, which are generally the busiest of the year. When this is done the interest is sometimes proved by deducting the aggregate previous balance from the aggregate interest balance of a number of accounts corresponding to those upon each sheet of interest, and the result must agree with the total of interest upon said sheet. This is rapidly done by means of an adding machine, and when used in connection with the checking system previously described, practically eliminates error upon the ledgers.

Except in those States where personal loans are authorized, the funds of savings banks are not loaned but invested.

And invested, as above noted, not for the profit of the bank or the trustees, but solely for the benefit of the depositors. And inasmuch as the character of the investments is generally carefully restricted, all the trustees need do is to have a care that all investments shall comply with the law. This is particularly true of bond investments. In making loans the element of human judgment enters, and in passing upon loans and discounts in commercial banks, much depends upon the soundness of the judgment of the cashier, credit man or loan committee. Not so, however, in the savings bank, for only in making mortgage loans does this feature operate, and the margin is so ample that mistaken opinions are not a serious menace to the bank. In fact losses in savings banks are so small as to be of a negligible quantity.

The investments are of two classes: Mortgage loans on real estate security, and bonds. Practically all savings banks make loans on security of real estate, which are so stable in their character that they may well be classed as investments rather than loans. The bond investments are usually restricted, being the most carefully guarded in New York and in the New England States, and becoming more liberal in the West and South. The bond investments are of three classes: (A) Municipal bonds; (B) Railroad Bonds; (C) Corporation Bonds.

Trust and Savings Investments

The investment of trust funds and deposits of mutual savings banks are generally restricted by law to real estate mortgages and substantial bonds. More latitude is allowed to trust companies in the investment of their own funds, but the tendency is toward conservatism. The subject of bonds from the viewpoint of security is considered elsewhere in Part I of the Institute study course pertaining to Banking and the legal features of bonds are presented in Part II of the Institute study course pertaining to Law.

MORTGAGE LOANS.—From time immemorial real estate has been considered security par excellence and loans made on such security universally held in high esteem. If made with conservatism they are as safe as an investment can be, and usually earn a fair rate of interest. The margin is usually restricted to about forty per cent.—that is, the loan must not be over sixty per cent. of the value, and frequently not over one-half.

The impression quite generally prevails that the loan is made upon the mortgage. This is not the case, for the term "Bond and Mortgage" indicates another document and it is the bond or mortgage note, as it is often termed, that represents the debt. The bond is the obligation; the mortgage is simply the security. A mortgage is a conditional deed. By reading a standard mortgage it will be found to convey the property to the mortgagee (lender) if the terms and conditions are not fully met. As long as the interest and taxes are paid, and until the deed is due by its terms, the mortgage is inoperative; but as soon as the borrower defaults the lender has the right to sell the property to satisfy the debt. This he must do by legal process and by so doing "forecloses" the right of the borrower to pay the money and demand that the lien against the property be discharged. A mortgage is good between lender and borrower even if not recorded, but to be good against third parties it must be

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properly filed in the office of the county clerk or in large cities with the registrar in the hall of records.

Even with a wide margin of safety, it is essential that the property does not run down, or become impaired in value by changing conditions. This feature is carefully attended to by periodical revaluations by a committee appointed for the purpose, who personally visit the property and place a value upon the premises. The assessed valuations as shown by the tax records are also compared in order to act as a check upon the bank's appraisal. If the value has depreciated the loan is either reduced or called in. It is important that taxes are paid, since they are a superior lien, and this feature is guarded against by requiring the receipted tax bills to be shown yearly, or by search of the lists of unpaid taxes in the office of the tax collector.

It is of highest importance that every mortgage loan shall have a complete set of papers, and these are: (A) The bond, or mortgage note; (B) The mortgage, duly recorded; (C) The abstract of title sometimes called the "search," or title policy where the title has been insured by a title insurance company; (D) The insurance in an amount sufficient to cover the bank's loan, and the policy properly endorsed "Loss if any first payable to the _____ mortgagee, as its interest may appear." The insurance is very important, for in case of fire, the mortgagee would have nothing but a vacant lot as security if the loss has been complete. If loss occurs and the policy is properly endorsed, the mortgagee first gets his share, and the balance goes to the owner. All banks keep a record of insurance policies, their expiration, the agent, amount in force, etc., usually by having a card for each policy, and see to it that no loan is unprotected, even for a day.

The process of making a loan is simple. The borrower or his agent makes application on blank form supplied by the mortgagee, giving amount desired, size of lot, house, character of building, improvements, rental value, assessed valuation, etc., which goes before the finance, funding, or loan committee, by whichever term it may be called. This committee personally inspect the property and pass judgment. In large banks an appraiser is employed who is conversant with realty values, and all valuations are passed upon by him. If favorable the matter is turned over to the bank's attorney to make a "search" of the property, showing its history, sometimes as far back as sixty years. And particularly that there are no liens, judgments, etc., against the property that would imperil the loan. It must be a first mortgage or the bank must refuse it, as savings banks and trustees are not allowed to hold second mortgages. When the attorney is satisfied and certifies that the loan is a first lien, the papers are drawn, signed and recorded, and the money paid over. This work is often performed by the title companies in large cities, who not only search the title, but also for a fee guarantee that there are no encumbrances against it. The details of the loan such as rate of interest, date of record, insurance in force, when due, amount of interest, etc., are generally recorded on the "mortgage loan ledger," and the papers are kept together, and are checked over with great care by the official examiners. Interest notices are usually sent out about a month in advance, and interest is collected semi-annually, and all loans are made

with interest payable at the bank's regular dates. The notice is not obligatory and is a matter of courtesy only.

It would not be good policy for a bank to place all of its funds in mortgage loans, as desirable as these may be, for the reason that it is difficult and at times impossible to realize quickly upon such security. In New York not more than 65% of the funds may be placed on mortgage loans, and the balance must therefore be invested in bonds or kept on hand in cash or bank deposits.

John J. Pulleyn, Comptroller of the Emigrant Industrial Savings Bank of New York City, in an address before New York Chapter of the American Institute of Banking, considered the subject of "Mortgage Loans" with exceptional ability and clearness. While Mr. Pulleyn presented the matter from the viewpoint of New York City, the principles set forth are of general application. Following is a synopsis of Mr. Pulleyn's address:

In common with all commodities and investments, real estate has its periods of depression and inflation, being influenced by general financial conditions; however, when compared with other securities, it claims distinction by having fewer periods of depression. The reason is, that it is free from some of the elements that constitute weakness in other markets, and because it possesses elements of strength that are not observable in any other market, in like degree.

One of the principal arguments against investments in real property is that it is not a quick asset. Some declare this to be a fault. The answer to such criticism is that it is rather an element of strength and stability, and therefore a virtue instead of a fault; but if a fault, it is one that has grown steadily less objectionable as such.

Real property can hardly be considered liquid in the sense that you can take it down to the Stock Exchange or any other mart with other securities and sell it for cash inside of an hour or two; but it is more stable and reliable; with intrinsic and inherent wealth; more profitable than bonds or stocks, cotton, grain, etc. It is the element out of which these grow, and upon which all other values are based.

The reason for this stability and increased value of New York City real property is accounted for in the great aggregation of people, as shown in the figures of the 1910 census; the development and organization of industries, the accumulation of capital, natural resources, and organized forces, all of which furnish a stable foundation upon which to base this form of investment. The growth is not in spots, it is natural and orderly cumulative. Provision must be systematically made for it, and for its maintenance, support and development. Its physical organization of harbor, water ways, wharves, railways, streets, avenues, parks, subways, public utilities, churches, schools, colleges, museums, theatres, libraries, banks, markets of all conceivable varieties, shops, office buildings, hotels, apartment houses, tenements and private buildings, is inter-related and organized as if with a design to conserve human effort and energy.

The enormous increase of our population makes necessary the constant building of homes for the people, whilst the ever-increasing business activity means the steady construction of mercantile and factory buildings. These are the broad and general facts upon which the market for realty in New York city is based, and its tendency is toward higher levels of value, and broader fields of opportunity. Again, these facts are directly related to the demand for real property, and it is the universal demand, based upon the universal need that makes the market and the market values.

Within the limits of conservative appraisals of values you get the highest form of investment, combined with perfect safety. A surer, safer or better earning power for money cannot be found than through the medium of a first mortgage loan safely made on carefully selected, good income-producing real estate, non-fluctuating in value, always reckoned at par. In times of financial stress showing no depreciation in value, as did the highest grade of rail-

Institute Trust and Savings Bank

Application for Mortgage Loan

GENTLEMEN: I desire to obtain from your Company a loan of.....Dollars, for.....years from.....19....., upon Note secured by Mortgage on the property herein mentioned, situated in.....in the County of.....and State of.....the exact position of which is marked on the accompanying diagram, and which is described in the recorded Deeds of Conveyance, as follows, to-wit:

BUILDINGS

Describe them stating when built, their size, and whether of stone, brick or wood, what kind of foundation, and for what purpose they are now used.

Cash Value of the Real Estate without the Buildings, \$
Cash Value of the Buildings, \$
Total, \$

THE ANSWERS TO THE FOLLOWING QUESTIONS ARE GIVEN BY THE SUBSCRIBER AND ARE FULL AND CORRECT.

CITY
If the property is in the CITY these questions do not apply.

What is the size of the Lot, front, depth, &c.?.....
On what street, and between what two streets, is its frontage?.....
What is the value of the ground per front foot?.....
What are the street numbers of the buildings?.....
Is any part of the building used in common with adjoining owners or lessees?.....
(If so, state particulars.)
Are all the walls of the buildings, the stairs, passage-ways, and means of access to each story, wholly within the boundaries of the above described premises?.....
(If not, state particulars.)
What is the population of the city?.....

COUNTRY
If the property is in the COUNTRY these questions do not apply.

What is the distance to the nearest Town, and name and size of Town?.....
What is the distance to the nearest Railroad Station, and name of Railroad and Station?.....
Is there a public road touching this land and each separate, detached parcel of it?.....
What is the whole number of acres?.....
How many acres are fenced and how fenced?.....
How many acres are under plow?.....
What is the character and condition of the land not plowed, and the several parts thereof?.....
How much of the land above described is not susceptible of profitable cultivation, and why not?.....
(State the number of acres of such land and the several parts thereof, and whether by reason of its being too rough, hilly, broken, stony, sandy or otherwise.)
How many acres are low; is any of it wet and marshy at any season of the year?.....
(State particulars.)
State principal products of the farm, and the amount of each product last year.....
What is the cash value of the land per acre, and of the several parts thereof?.....

Such answers as "Don't Know," "Can't Remember," etc., will not be accepted. All blanks must be filled, and the questions answered fully, or the application will be returned for completion.

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By whom and for what are the property and buildings occupied or used?.....
If to be occupied by applicant in the near future, state exactly when?.....
If occupied by tenant of applicant, give full name of tenant?.....
Is it rented, and what is the annual rental?.....
If it is not rented, state what it would rent for?.....
On what portion of the premises are the buildings situated?.....
(Give exact location.)
What machinery, fixed and movable, boilers, engines, dynamos, heating apparatus, furnaces, electrical equipment, steam pipes, shafting, gas and water fixtures and furnishings, elevators, and other appliances and fixtures of every nature, are in or upon or used in connection with the premises and buildings?.....
For what amount are the buildings insured, and in what company?.....
Is any building in process of erection on these premises, or contracted for?.....
(State particulars.)
Are there any mortgages, judgments, mechanics' liens or claims for labor or materials, or other liens or incumbrances on the property at this date, or any claims of any nature against it; any judgments against, or any suits pending by or against the applicant? If so, state the following items in each case, viz.: date, when due, for what amount given, amount now unpaid, to whom given, and by whom now owned. If mortgages, state also what amount of interest remains unpaid and for what time?.....
Will releases of above incumbrances be procured by you, ready for delivery and for record at the time of closing this loan?.....
Is any part of the loan to be used in purchasing the property; if so, how much?.....
Have any proceedings in bankruptcy been instituted by or against you, or, to your knowledge, by or against any person holding title to the premises within one year last past?.....
Are there any unpaid taxes against the property? If so, for what years?.....
In whom is the record title, and is it perfect of record?.....
What is the assessed value of this property for taxation, as per last assessment roll?.....
What is the amount of the last annual tax on said assessment?.....
Are you married? If so, state your wife's (or husband's) name in full.....
What is your place of residence?.....
Do you claim a residence or domicile in any other place? If so, where?.....
What is your business or occupation?.....
Where is your principal place of business?.....
Are you a member of any co-partnership?.....
If so, where is the principal place of business of such co-partnership?.....
Where should communications in connection with the loan be sent?.....
What is your age?.....
It is understood in making this application that neither the Institute Trust and Savings Bank nor its agents make any charge whatever for procuring or facilitating loans, but that the necessary expenses, including the charges of local counsel for examining title and preparing the securities, if required, are to be paid by the borrower. Also, that a complete and acceptable abstract and such other evidences of title as may be necessary, are to be furnished by the borrower at his expense, all of which shall be retained and held by said Trust and Savings Bank, until the loan herein applied for shall be fully paid.
This application is sent in by.....whom I have employed as my agent in securing the loan asked for.
The applicant is required to make full answers to all the interrogatories in this application as far as applicable, and to sign this application with his own proper signature.
Signed.....
(Name in full.)
Dated.....19.....

APPRAISAL OF PROPERTY

We, the undersigned, hereby certify that we are well acquainted with the value of the Real Estate described in the foregoing application for a loan of \$.....; that we have carefully appraised the said Real Estate, and that in our judgment the present cash market value of the
Ground, exclusive of building, is.....Dollars, (\$.....)
(Insert the amount.)
And the cash value of the building is.....Dollars, (\$.....)
Making a total value of.....Dollars, (\$.....)

IN TESTIMONY WHEREOF, we have hereunto set our hands at
this.....day of.....19.....

COUNTRY PROPERTY

Mark location of land showing Public Roads, Schools, Railroads, &c., and exact location of buildings on this diagram

Township No. Range No.
County of State of

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

CITY PROPERTY

Mark location on this diagram.

West	North	Street	North	East
West	Street	Street	Street	East
West	Street	Street	Street	East
West	Street	Street	Street	East
West	Street	Street	Street	East
West	Street	Street	Street	East
West	Street	Street	Street	East
West	Street	Street	Street	East

Mortgage

I Hereby Grant, Bargain, Sell, Convey and Warrant to the INSTITUTE TRUST & SAVINGS BANK, of New York, N. Y., its successors and assigns (hereinafter called the mortgagee), in consideration of the sum of

dollars in hand paid, the receipt whereof is hereby acknowledged, the following described real estate, in the County of _____, State of _____ to-wit:

together with all the rents, issues, and profits thereof, and all elevating, heating, cooling, lighting, cooking, ventilating, watering, and irrigating apparatus, machinery, and fixtures, whether attached or detached; and all privileges and hereditaments now or hereafter belonging to the above described premises or in any wise appertaining thereto.

THIS INSTRUMENT IS INTENDED AS A MORTGAGE to secure the performance of the covenants hereinafter contained and to secure the payment of the debt evidenced by the principal note which I have made payable to the order of the mortgagee in words and figures as follows:

\$ _____ NEW YORK, N. Y. 19 _____
On _____, 19 _____, for value received, I promise to pay to the order of the INSTITUTE TRUST & SAVINGS BANK, at the office of the holder of this note, _____ dollars in gold coin of the United State of America of the present standard of weight and fineness, together with interest thereon at the rate of _____ per cent per annum, with current exchange on New York. Interest shall be paid

This note is secured by mortgage of even date to the INSTITUTE TRUST & SAVINGS BANK. If default be made in the payment of any installment of said principal or interest at the time and place that such payment shall become due and payable, or in the performance of any stipulation or covenant contained in said mortgage, then, at the election of the mortgagee, the entire sum secured by said mortgage shall at once become due and payable, without notice.

If this note is placed in the hands of an attorney for collection or if suit or action is instituted to collect the same or any part thereof, I promise to pay, in addition to the costs and disbursements provided by statute, a reasonable sum in gold coin for attorney's fees.

Address:

(Signed)

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This mortgage also secures my other notes of the same date and tenor as the foregoing, except that

One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19
One for \$	is due on the	day of	, 19

I FURTHER COVENANT AND AGREE with the mortgagee that:

1. I am lawfully seized of said premises in fee simple, that the same are free from all encumbrances, and I will not permit or suffer any tax, certificate of delinquency, assessment, mechanic's lien, material lien, or any other encumbrance whatsoever prior to the lien of this mortgage to exist against said premises;

2. I will pay the sums of money and interest thereon as herein provided;

3. Until this mortgage shall be fully discharged, I will keep the buildings on said premises unceasingly insured against damage by fire in a sum not less than

dollars, in such insurance company as shall be approved by the mortgagee; all insurance whatsoever affecting the mortgaged premises shall be made payable, in case of loss, to the mortgagee, and each policy shall contain a mortgage subrogation clause in favor of the mortgagee; and every insurance policy affecting the mortgaged premises shall at all times be deposited with the mortgagee, and all premiums thereon shall be promptly paid by me when due; in case of payment of any policy or any part thereof, the amount so paid shall be applied either upon the indebtedness secured hereby or in rebuilding or restoring the damaged premises, as the mortgagee may elect; all insurance policies affecting the mortgaged premises written during the life of this mortgage shall be written through THE INSTITUTE TRUST & SAVINGS BANK;

4. I will pay all taxes and assessments, general or special, which may be assessed upon the said land, premises, or property, or upon the interest of the mortgagee therein, or upon this mortgage or the debt secured thereby, before the same become delinquent; I will pay all costs and expenses which the mortgagee may incur or expend in any proceeding, legal or otherwise, including a reasonable sum for attorney's fees, to sustain or enforce the lien or priority of this mortgage or to discharge any claim or lien or to recover any indebtedness secured hereby, or for abstract or extension of abstract of title to the mortgaged premises, and will pay interest on every such expenditure at the rate of twelve per cent per annum from the time the same is incurred;

5. If I shall fail to keep in force insurance on the mortgaged property as herein provided, or shall fail to pay all or any part of the taxes or assessments which may be levied or assessed against the mortgaged property or on the indebtedness secured hereby or against any interest of the grantee in said mortgaged premises or the indebtedness secured hereby, or if any incumbrance prior to the lien of this mortgage shall exist against the mortgaged premises, the mortgagee may, at its option, procure said insurance and pay said taxes and assessments or redeem the property from tax sale if it has been sold, or pay and discharge such incumbrance, and I agree to pay to the mortgagee any and all sums which it may so pay or for which it shall become obligated, together with interest thereon at twelve per cent per annum from the date the same shall have been paid;

6. If default be made in the payment of any part of the indebtedness according to the terms of said note or notes or mortgage, or if I shall suffer or permit waste to be committed on the mortgaged premises, or if any incumbrance arising either by contract or by law which might be prior in lien to the lien of this mortgage shall rest upon all or any part of the mortgaged premises, or if I shall make default in the full performance of any stipulation or covenant in this mortgage contained, or if any law shall be passed imposing on the grantee payment of the whole or any part of the taxes or assessments which I herein agree to pay, or if any court of competent jurisdiction shall render a decision that my undertaking herein to pay any or all of said taxes or assessments is legally inoperative, then, in each and every such case, the entire principal sum secured by this mortgage, together with all interest accrued thereon, and all other moneys secured by this mortgage, shall, at the option of the mortgagee, be and become at once due and payable, and may at any time thereafter be collected by suit at law, foreclosure of this mortgage, or any other proper proceeding, without declaration of such option or other or further notice;

7. No failure of the mortgagee to exercise any option to declare the maturity of the debt hereby secured shall be taken or deemed as a waiver of right to exercise such option because of any past or present default on my part, and the procurement of insurance or payment of any taxes, assessments or liens by the mortgagee, as herein

provided for, shall not be deemed a waiver of the right to declare the maturity of the indebtedness hereby secured, by reason of my failure to procure such insurance or to pay such taxes, assessments or liens;

8. Upon maturity of said indebtedness, either by lapse of time or by reason of any default in the performance of any of the covenants or agreements herein contained, the mortgagee shall have the right forthwith to enter into and upon the premises hereinbefore described, and may take possession thereof and collect the rents, issues, and profits thereof and apply the same upon the indebtedness hereby secured;

9. If at any time it may be necessary to protect the lien on the mortgaged property or its rents and profits as herein provided, either before or after the maturity of the indebtedness hereby secured, or at the time of or at any time after the institution of suit to foreclose this mortgage, the mortgagee shall have the right to the appointment by any proper court having jurisdiction, of a receiver to collect the rents, issues and profits of the mortgaged premises, and after paying the expenses of the receivership, to apply the same on the payment of any obligation secured by this mortgage; the said receivership at the option of the mortgagee may continue until the full payment of all obligations hereby secured, or until title to the mortgaged premises shall have passed on execution sale under this mortgage, including the period of redemption;

10. If the proceeds of any sale under foreclosure of this mortgage shall not be sufficient to pay the costs and expenses of such foreclosure and sale, including a reasonable sum for attorney's fees, and to pay all moneys, advances, interests, and costs secured hereby, then I covenant to pay such deficiency, and deficiency judgment therefor may be entered forthwith without notice, and the decree of foreclosure shall provide that the balance due and costs which may remain unsatisfied under such sale, shall be satisfied from any other of my property, and execution issued therefor and levy made thereunder upon such property or any part thereof;

11. As to the mortgagee, its successors and assigns, and all who may acquire title to this property pursuant to this mortgage, I hereby waive the rights of homestead, exemption, stay laws and dower.

IN TESTIMONY WHEREOF, I have executed this instrument this _____ day
of _____, A. D. 19____, at New York, N. Y.
WITNESSES:

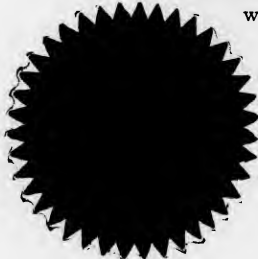
..... (Seal)
..... (Seal)
..... (Seal)
..... (Seal)

STATE OF _____ }
COUNTY OF _____ } ss.

On this _____ day of _____, A. D. 19____, before me personally appeared

to me known to be the person who executed the within and foregoing instrument, and acknowledged the said instrument to be _____ free and voluntary act and deed; and acknowledged that this instrument is executed for the uses and purposes therein stated.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.



.....
Notary public in and for the State of

.....
Residing at

CLEARING HOUSES AND TRUST AND SAVINGS INSTITUTIONS

road and municipal bonds in 1907. The minimum rate rarely falls below 4 per cent.; the maximum is 5 and sometimes 5½ per cent., and an average may be maintained which will always insure the earning of a good dividend for depositors; backed by the highest character of security that can be created, "the standard security of the world, New York City real estate."

The banking law of the State also provides that no investment in any bonds and mortgages shall be made by any Savings Bank except upon the report of a committee of its trustees, charged with the duty of investigating the same, who shall certify to the value of the premises mortgaged, or to be mortgaged, according to their best judgment, and such report shall be filed and preserved among the records of the Institution.

The original theory covering the organization of Savings Banks was that they should fill a neighborhood want, and besides furnishing an opportunity for savings and thrift that they would secure an outlet for the investment of part of their funds by enabling the owner of real property to borrow upon his security at a fair rate of interest. The members of the Board, or those who constituted the real estate committee were expected to have such a general knowledge of values of real estate in their own particular neighborhood as to enable them to make fair appraisal of property values. This still holds good in many communities outside of greater New York. In New York city conditions have changed—no longer does any one bank depend upon its neighborhood clientele for the investment of funds, nor upon a given territory for its deposits. For this reason the Superintendent of Banks permits the larger Savings Banks, or those who lend largely on real estate security, or whose volume of business is such that no committee could investigate the number of applications presented, the employment of an appraiser, whose work in turn may be supervised by a real estate or executive committee, whose report on each parcel of property is accepted and endorsed by such committee, to comply with the requirements of the law.

Appraising property values requires a keen, alert and logical mind, together with a retentive memory. Knowledge may be acquired by years of study, by familiarizing one's self with the bids and offers, together with prices obtained from purchases and sales of real property, by attending public sales and observing the character of the bids. Out of the sum of such experience may be evolved general rules to govern relative values, all of which will be of great aid in guiding the judgment. Knowledge may be gained by a study of the contributing factors, such as public improvements, improved transit facilities, business activities, the earning power of different kinds of buildings in the various trade centers, and by personal contract in the negotiation of sales, exchanges, leasing, etc. A constant study of the various influences affecting the growth and development of sections and neighborhoods is imperative for success.

Opinions as to values must be carefully formed and are to be relied upon only in proportion to the experience and knowledge of the appraiser. His mind must be broad enough to take in the steady increase in prices paid; for instance, a quarter of a million dollars seem a high price to pay for a city lot, yet the number of sites on Manhattan Island worth that sum is large, and is growing.

Ten years ago a real estate article appeared, showing a list of fifty-six transfers of property in which the consideration (which, by the way is seldom recorded except in court sales), amounted to \$100 or more a square foot. This list covered the period from 1868 to 1901. It contained only ten items relating to property north of Maiden Lane. A list recently brought down to date shows forty transfers in the last ten years in which the consideration amounted to \$100 or more a square foot. A notable share of these transfers refer to property north of 23rd Street, a section represented by only one item in the list of 1901.

Today there are two well-defined areas of high price real estate, the financial district and the shopping district. It is in the latter that the main proportion of increase in values has taken place of late. In the last ten years the center of high price real estate has shifted from 6th Avenue and 23rd Street to 5th Avenue and 34th Street. A good many investors and business men would give much to know where it will be a decade hence.

There are many centers of activity or zones, all of which should be known by the appraiser, and he must make a study of each of the conditions to determine whether the growth and development are permanent or transitory. Take for instance the downtown office or financial district, the 5th Avenue or shopping district (unquestionably one of the greatest real estate and speculative areas in this country) the mid-town loft district, the improvements surrounding the Pennsylvania and New York Central Railroad developments; the choice residential sections, the westerly side of Central Park; the Washington Heights District (following the line of Broadway to Kingsbridge), and the residential and business sections of the Boroughs of Brooklyn and the Bronx. The mobility of trade centers has always been a striking feature of New York real estate, and in contrast, is the stability of the financial district, which continues to increase in value without changing its central point. All these districts should be intimately known to the appraiser.

The value of all real property is based upon the total or gross return produced on the capital invested, prospective or otherwise; upon the character and permanency of the particular neighborhood; rate of increase or decrease in the population; the characteristics of the section of the city in which the property is located; its past history, its present stability, its future prospects; means or transportation. How far distant from surface, elevated or subway? The kind of building on the property and whether it is suited to the purposes for which it is used. The physical condition of the building, and whether well rented and managed. Its income and cost of maintenance. At what prices surrounding properties have been sold. Are values steady or fluctuating? Can the property be affected by surrounding owners? Is the section free from nuisances?

All values are primarily built upon the value of the land unit, therefore, it is absolutely essential to the correctness of any appraisal that the unit should be truly estimated. If an error is made in determining this unit value the whole calculation based thereon falls to the ground, and per contra when this is satisfactorily determined it is never difficult to form a conclusion as to the exact value of any number of units similarly situated. An example frequently used to explain the methods of determining values is given herewith: The unit size of a New York city lot is 25x100. Locate it in the center of any block or avenue, and give it a unit value of \$10,000. Then suppose you want to add several more units making a plot of ground 100x100, equal to four city lots. If the unit price is \$10,000 the increased sized plot will be worth four times the unit price, together with 10 per cent. for plottage, because of the increased advantage the larger area gives for improvement, and the total value will be \$44,000.

The percentage allowed for plottage has become a fixed rule, based upon experience. Corner lots have a value from 60 per cent. to 100 per cent. greater than inside lots, depending upon location. A corner plot consisting of four lots or 100x100 feet in measurement is valued as follows: Starting with the unit price on the last lot of the plot distant from the actual corner, you increase the value of the adjoining lot 10 per cent., the next or third lot by 20 per cent. and the corner lot itself by 60 per cent. to 100 per cent. over the unit value, then add the percentage for plottage, viz.:

Lot furthest from corner.....	\$10,000
Next lot adjoining \$10,000 plus 10%.....	11,000
Next lot adjoining \$10,000 plus 20%.....	12,000
Corner lot \$10,000 plus 60% to 100%.....	16,000 or \$20,000
	<hr/>
	\$49,000 or \$53,000
Add 10% Plottage.....	4,000 or 5,300
	<hr/>
	\$53,900 or \$58,300

Gore lots and lots containing less than the unit lot of 2,500 square feet are valued by fixed rules known as the Harmon or Hoffman tables. The size of the lot in square feet is multiplied by a fixed percentage, and the given result is accepted as correct.

When land is suitable for a number of purposes one utility competes against another, and the land goes to the highest utilization; this rule governs only in business conditions. Where land

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is useful only for tenement or cheap dwelling purposes it rarely becomes more valuable because of these very limitations.

Having considered the value of the land unit, we proceed to consider the improvement, or building, which forms the basis of earning and supplies the income on the capital invested. These should be an even division of the investment as between the ground and building, because the building suffers a yearly depreciation, which the appreciation in the land should be sufficient to offset. From the sum of one's experience, comparing notes with architect and builders, their plans and specifications, we are able to make a fairly correct estimate of the cost of buildings.

Taking into account the construction of modern tenement, loft, mercantile and office buildings, where the operation is purely a speculative one, built wholly upon the fixed requirements of the Building Law as to percentage of the plot to be built upon, the height of building, fireproof or non-fireproof. The following table is a fair guide:

Brick Tenements, old buildings are worth 8 to 12c. a cubic foot.
New Law Tenements, non-fireproof are worth 15 to 25c. a cubic foot.

High-class Apartments, fireproof are worth 25 to 45c. a cubic foot.

Store and Loft Buildings, non-fireproof are worth 18 to 22c. a cubic foot.

Modern Mercantile Buildings, fireproof are worth 25 to 35c. a cubic foot.

Office Buildings, fireproof are worth 35 to 60c. a cubic foot.
Theatres, churches, schools and public buildings are of special architecture and construction, and, as an infinite variety of materials are used they have a special cost, and each individual piece must be valued separately.

The value of buildings should be closely proportioned to the cost of the surrounding buildings. A building costing forty to fifty thousand dollars in the midst of buildings costing five to ten thousand dollars has but little commercial value in excess of the cheaper surroundings.

Increased population is responsible for the erection of tenement and apartment houses, such increased housing being necessary, they become profitable in New York city, but applied to smaller cities where land is abundant and of nominal value, they would prove a failure, because the earning power, based on the cost of the building would be insufficient to give an adequate return on the investment.

Study the suitability of buildings to land by surroundings, character and probable life. Constant physical deterioration is going on notwithstanding constant repairs; fire may wipe it out, business may change, or competition may alter the conditions. Changes in utility are responsible for re-modeled buildings, usually for business purposes. Dwellings are converted into business, business buildings into hotels, etc., etc.

When neighborhoods increase in value old buildings are usually destroyed, their value having passed into the ground, and modern buildings erected in their stead; the more rapid the increase in land values the quicker come the new improvements.

Sources of rent derived from real property are varied and numerous, but among those which are outside of the common channel the best producer perhaps, is the out-door sign privilege. Two or three years ago the development of the use of outdoor advertising became so conspicuous as to cause agitation almost reaching the stage of mass-meetings of protest. Societies for the preservation of the beauties of the city became very active in efforts to banish the sign nuisance. But little has been heard recently, yet there has been a multiplication of unsightly examples of the kind, which drew the wrath of those protests filled many newspaper columns.

This source of income is growing because it is exceedingly remunerative for owners of real estate in centers of traffic, and they are constantly besieged to permit the use of their property for sign purposes. The rise of the sign has been steady, from the shop window, to the cornice, and from there on upward, until it reached the roof.

Capitalization of air has been going on for some time, and

has made building tops valuable assets. Many owners of real estate along Broadway in the hotel and theatre district, receive a small sized fortune every year for such privileges. The greatest display of signs (probably not equalled in the world) is on Broadway from 33rd to 59th Streets, known popularly as "The Great White Way." These signs yield great revenue because of their use at night, making this stretch a brilliant spectacle, attracting the notice of the patrons of theatres and restaurants.

Not so many years ago a buyer of real estate paid little or no attention to the roof (except to note that it was in good condition.) Now in some instances, the roofs of properties in locations possessing a publicity value, bring a larger annual revenue than is produced by the building itself. Hotels and apartment houses are not considered modern nowadays, unless the roof has been utilized as a garden, thus showing that the building tops are come to be an important asset as revenue producers, besides protecting the structure from the elements.

If the modern science of efficiency in administrative work leaves any impression on the thinking man, he must appreciate the value of keeping the proper records to note the many changes which are continually occurring in the realty market. The records of sales, transfers, leases and mortgages supply valuable data, which will be found beneficial in the consideration of loans, or in the confirmation of the appraised value of loans already secured.

These records should be kept on cards, and every lender should have a complete set, covering the whole of the greater city of New York. Besides maintaining the above system of records, each bank should put in operation a card ledger, upon which is recorded the whole history of the loan, its location, size, character appraised value, owner's name and address, block and lot numbers, examining counsel, rate, maturity, city assessed value, amount of loan, and the interest payments, together with a memorandum of the policies of fire insurance covering the improvement.

All mortgage loans should be constantly supervised; prompt payment of interest, taxes, water rents and assessments when due must be insisted upon, and a personal examination of the property is necessary at least every 2 or 3 years to see that the building is kept in good physical condition; that no nuisances have crept into the neighborhood. Such inspection should be carefully noted on the card, so that when the loan matures the information thus gathered will enable you to extend the time, or demand payment of the principal.

This investment requires as careful watching as do railroad or municipal securities, which may become illegal for investment through default in the payment of two semi-annual dividends, or for other reasons, when the conditions named in the automatic investment laws of the State of New York are violated.

In taking up the question of mortgage risks it is well to apply the laws of business average to all your loans, diversifying the risks as much as possible to avoid the possibility of some neighborhood deteriorating in value from over-speculation. This principle must be applied to all locations, residential or business.

The bank that studies the needs of the people and is willing to scatter its investments in order to produce as large an earning power as possible for its depositors, assumes no larger responsibility in placing up to 65 per cent. of its total assets in well secured real estate loans than in buying gilt-edged bonds, which because they are absolutely safe and because they command a quick and ready market are generally preferred.

The best way to build up a bank's business, carrying out the principle for which Savings Banks really stand is to make friends with the small borrower, who is trying to establish his own home; lend him whatever his property is entitled to, based on a conservative valuation, at the market rate of interest. Educate him to meet promptly interest and taxes; encourage the payment of \$100 or multiples thereof on account of the principal at whatever time he may elect. This method teaches a man to save, and common experience proves that as soon as a man commences to reduce his mortgage his appetite for reduction increases very rapidly. He may be assured that his mortgage will never be disturbed provided the conditions named are lived up to. By adopting this method a banks will always have plenty of applications for loans, and a host

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of friends to advertise such broad and liberal policy, worth more than thousands of dollars spent in newspaper advertising.

This method is in line with the system adopted by the Credit Foncier or mortgage bank of France. By this system the borrower is permitted to make payments which will liquidate his mortgage in ten years, but liquidation, however, is not required in that period. The time of liquidation can be selected in accordance with the borrower's earning and saving capacity. The Credit Foncier, since its charter was granted has loaned over one billion dollars and has outstanding mortgages to date of approximately five hundred millions with a flat interest rate of 4 per cent. The argument is made that our building and loan associations take the place of this system; they do to a certain extent, but on account of their limited geographical area they appeal to a comparatively small number of individuals.

Rates should always be based on market conditions, all borrowers receiving the same consideration, paying the same rate regardless of whether the equity in the loan is 10 per cent. or 60 per cent. If there is any "Royal Road to Success" it is in the adoption of such methods for the fair treatment of everyone.

Loans on factories, theatres, schools and churches and public or private institutions are very undesirable for Savings Bank funds, exception being made to those churches, schools and institutions belonging to the Roman Catholic Church, whose corporations are under the jurisdiction of the Bishop of the Diocese, whose bond protects all mortgage loans. Trust funds were never intended to be loaned on the before mentioned properties except for the reason stated, because were they to come into the possession of the lender through foreclosure, etc., they would be found, not only non-marketable, but generally useless for remodeling for other purposes.

Private houses, tenements, mercantile and office buildings are all very desirable for mortgage loans. The private dwelling, tenement or apartment house is especially so, when the owner resides on the premises; he gives his personal attention to keeping the premises in good physical condition, and his taxes and interest are usually promptly paid. Special care and attention should be given to the location and the surroundings of each mortgage risk, and the neighborhood should be thoroughly in keeping with the improvements.

Farm mortgages depend largely upon the modern improvements on the farm, such as residence, barns, outhouses, etc., as well as fertility of the land. Accessibility or proximity to cities is recognized as an important factor. These loans belong exclusively to the savings bank located in the nearest city, and the appraisal is usually made by a committee who are thoroughly acquainted with such values.

As the city grows, more remote and inferior locations must be utilized, and the development of transit facilities brings into consideration suburban loans which are often found desirable. An exception must be made where a suburban tract is speculatively undertaken, with lots selling at prices beyond their value or in advance of improvements.

Apropos of transit facilities and their development, an interesting statement was recently made by the Street Railway Association of the State of New York. They claim that land values in New York State have doubled in the last decade; that over ten billions in assessments on real property will be totaled in the State lists for 1911, if the rate of increase of the previous year holds. Only a little over half this sum was shown in the official valuation ten years ago. Along the lines of about 1,800 miles of interurban and suburban tracks that have been extended over the State since 1902, there has been traced much of the appreciation in farm and city property.

There is almost a yard of trolley track to each inhabitant of the State, and the population has almost two millions over that of ten years ago, when less than two feet of rails per capita were laid. Hundreds of farms and suburban sites have increased in assessed valuation from 100 to 550 per cent. all along the street railway extensions, in a decade.

Real estate operations in New York State are largely financed by Savings Banks and Life Insurance Companies, and the real

estate mortgage is constantly gaining in popularity as an institutional investment.

Title companies play a prominent part in supplying funds for new buildings; the building loan then becomes a permanent mortgage when the building is completed; title to the property is guaranteed, as is the prompt payment of interest and taxes, and the loan, backed by a guarantee, is sold over the counter to those who are unwilling to assume the responsibility of appraising values.

When savings banks or mortgage companies withdraw from the mortgage market their action is quickly felt. Sometimes the step is taken to prevent over-production, or certain sections are discriminated against because of over-speculation or untenanted buildings.

The greater part of 1910 and 1911 witnessed a period of high rates, and at times, unusual stringency in the money market. The general money market is now experiencing "ease in money." I doubt very much whether the savings bank can longer maintain a 5 per cent. rate; they must reduce their rates to $4\frac{1}{2}$ per cent.

The value of New York City real estate as an unfuctuating basis for mortgage investment is too firmly established in the confidence of the lending public to lose its power of attracting capital. Unless the banks are flooded with money at the quarterly and semi-annual periods, and are forced to make investment of their excess funds, desirable loans on conservative values will rule at $4\frac{1}{2}$ per cent.

The usual timidity of investment capital is shown during a period of over-production, or when stores and lofts, apartments and business buildings are vacant. Loanable funds are quickly withdrawn, and the borrowing is limited to a small supply at high rates until general conditions denote a healthy and permanent change.

As a great financial center the City of New York is becoming more prominent every day, increasing its advantages as a place of business and residence. The growth of population is forcing homeseekers to the outlying boroughs. Consider for a moment the growth of the adjoining counties in New Jersey and New York—like Bergen, Hudson, Essex, Union and Passaic—Nassau, Westchester, Suffolk and Rockland.

The real problem is how to deal with the housing demands of the future, and this is why the rapid transit proposition is occupying the attention of all our citizens.

When we have established supreme confidence in the certain development, growth and stability of New York City and surrounding territory for loans, producing higher returns on the investment than any other security of equal merit, and the Institutions with loanable funds have the ability to grasp the fact, and take advantage of the opportunities offered, we will all be agreeably surprised in the result obtained by the investing in mortgage loans.

BOND INVESTMENTS.—A bond is a promise to pay. It may be issued by a government, a State, city, county, town, village, school district, railroad, public service or other corporation. The highest grade bonds are those of governments, followed somewhat by those in the order named, except the obligations of certain well-established railroads which take rank with the best municipals and usually command a high figure in the market and are in every way a most desirable security. Municipal and railroad bonds constitute trust and savings bond investments, and are legalized in all States. The restrictions put upon such securities differ somewhat, but it is quite common to find the laws favoring local industries both in municipal and other issues. Thus in the New England States, the restrictions are more severe for bonds outside New England than for those at home, and industries in the home State favored as against those in adjoining States. The rule may be stated as follows: The farther from home, the more rigid the requirements. This is true also in municipal bonds, as for in-

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stance the bonds of a city within the State having a ten per cent. debt may be legal, while for one outside, a debt of not over five per cent. would be considered within the limits of conservatism. Railroad bonds are usually judged by the earning power of the road, its history and management, the priority of the lien, the bonded debt per mile, the proportion of capital to bonded debt, the rate of dividends and their continuity, and other factors that would make for soundness and stability as a public carrier.

Corporation bonds are those issued by such concerns as telegraph and telephone companies, gas and electric lighting companies, surface railroads or "trolley lines," steamship companies, etc. Any corporation which serves the public, such as a telephone company, is termed a public utility corporation and if well managed, its securities are considered a safe investment, although in some instances there have been heavy losses through mismanagement and corporate abuses. Such bonds are legal investments quite generally, except in such States as New York, Pennsylvania and Vermont, which have not yet opened the doors to this class of investment. Other corporation bonds are issued by manufacturing companies, such as steel, lumber, coal, manufacturing companies, and these too are legalized in some sections, but not in New York, where the line has been closely drawn and only municipal and certain high-grade railroad issues have been designated as proper investments. As the funds on deposit increase the tendency has been, somewhat from necessity, to broaden the scope of investments, but safety has been the prime requisite and only such bonds as have proven themselves of sterling worth have, in most of the States, been classed as proper for the investment of savings bank funds.

Bank stocks are specifically legalized in some States, among which are, Florida, New Hampshire, Maine, Massachusetts, Rhode Island, and Vermont, but usually local institutions are favored, and the amount that may be held is often restricted.

Collateral loans are, of course, made upon any security which a bank may buy, and in some places, as in Massachusetts, certain stocks may be pledged as collateral, but not purchased outright. Other loans of a personal nature, usually secured by one or two endorsements, are also considered proper for these institutions, and in the panic of 1907 the bank commissioner for Massachusetts reports that such loans were found to be most satisfactory, affording immediate cash on account of their short maturities. If made with caution and well secured there can be no question of their desirability. New York State, as yet, does not permit such loans. The scope of this lesson does not permit the enumeration of the legal investments of every State, for which the students are referred to the savings bank laws of their own States.

In the bond register, aside from the proper amortization charges, it is quite necessary to have a full description of each lot of bonds held, especially those in coupon form, which are easily negotiated if stolen. Registered bonds are payable only to the registered owner and in the case of corporations such as banks require a resolution of the board of managers before transfer can be made, certified copy of which must accompany the order to make the transfer. In

order to fully describe a bond, the name of the bond must be known, the series to which it belongs, the number, amount, rate, when due, where payable, of whom purchased, and when the interest is payable. For future use, the purchase price, and the net income is also desirable, since these figures assist materially in making up the periodical reports, which require record of cost, book or investment value and market value.

Exercises

In connection with "Clearing Houses and Trust and Savings Institutions" the following exercises are prescribed:

1. Describe the principal functions of Clearing Houses and explain the "clearing principle."
2. Discuss different methods of settling balances.
3. What records are necessary in making the exchanges?
4. State how Clearing House currency certificates and loan certificates are issued, and the uses and advantages of each.
5. How does the employment of Clearing House examiners insure bank solvency?
6. Describe methods employed by Clearing Houses for the collection of country checks.
7. Explain the difference between a transit item and a city collection item and state what constitutes "due diligence" in collecting each.
8. Define exchange charges and collection charges and discuss needed reforms.
9. Explain the purpose of the Universal Numerical System and its utility in your bank.
10. Wherein do trust companies and savings institutions differ from commercial banks?
11. In what fiduciary capacities are trust companies generally empowered to act?
12. Discuss the principal duties and responsibilities of executors and administrators.
13. What responsibility does a trust company assume in acting as trustee or transfer agent of a corporation?
14. Distinguish between stock and mutual savings banks as to ownership and management.
15. How are savings banks in your State supervised and what does such supervision cover?
16. What safeguards do savings banks use as a protection against fraudulent payments?
17. Why should care be exercised in making payments on accounts of deceased persons and to whom does the money on deposit belong after death?
18. What classes of bonds are usually considered suitable investments for trust funds and savings bank deposits? Why?
19. Define a real estate mortgage, describe the process of making a real estate mortgage loan, and describe all necessary papers.
20. What are the essentials of security in a mortgage on real estate.

Answers to exercises should not be limited to a discussion of the subject as treated in single paragraphs, or captions, of the text. Answers may be short, but they should be complete and give evidence of study.

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Part I

Banking and Finance

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